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Inside

Cabinet scrutinises role of MoW team

by Colin James

A "DEAR Bill" letter from a firm of consulting engineers to Energy Minister Bill Birch has sparked a Cabinet investigation of the role of the special projects section of the Ministry of Works and Development.

The 30-strong section carries out general civil engineering investigations and design for Government departments and other state-funded projects.

It has a high reputation for the quality of its work — a reputation which has landed it in its present spot.

The trouble is that the *Nelson Harbour Board wants the* team to prepare its 25-year forward harbour development plan — and is determined to have the section do the work even though both the section and its political masters have said the work must go to private enterprise.

The harbour board invited quotes from two private firms. But it decided on the special projects section because of the quality of its past work, the fact that it had already done work similar to that which the harbour board wants done, and the section's tie-in with the Government administrative and planning machine.

One of the rejected private firms, Truebridge Callender Beach and Co, of Wellington, later complained to Birch, who took up its cause.

Though Birch would not confirm it, *NBR* understands he took an oral case to the Cabinet works committee on July 9 for restrictions on the section's activity.

The matter was again discussed at last week's works committee meeting, without finality.

The investigation has raised fears in the ministry that the section may be severely reduced in numbers and scope of work, thereby affecting the quality of the work it is left doing.

Already *NBR* understands, the section has been barred from quoting for a number of state-funded projects.

The issue is one of party philosophy — ensuring the state does not do work which private enterprise could do. But there is an added piquancy in the fact that Birch was a surveyor in private practice and has many friends in the profession.

The Ministry of Works and Development has become something of a whipping boy of the private enterprisers. The architectural division is under searching investigation by the Parliamentary public expenditure committee.

The Cabinet works committee chairman, Bill Young, confirmed last week that the committee was examining the role of the section "with the thought that we may be able to divest ourselves of some of the work we are doing and putting it over to private enterprise."

But there was no question of disbanding the section, he said.

Birch, one of the Cabinet's most relentlessly private sector champions, has taken a stronger line.

"My concerns is that where private sector resources are available and able to do the work, the Government should not do it," he said.

He did not criticise the existence of the special projects section. "*It plays an important* role very effectively and has some very able people," he said

But he felt that it should be restricted to work which private firms could not handle — such as new technologies associated with energy development.

"Where resources are not available in the private sector, I can defend the Government taking a lead and getting the thing going. But once it is going there is no need for it to be kept inside the Government, it should be handed over to the private sector," he said.

His guideline: that the two sectors should not compete but complement each other.

This approach may yet grant the Nelson Harbour Board its wish to use the special projects team — but in some sort of arrangement with a private firm. The possibility of a compromise is being considered by the works committee.

The saga began in April when the Nelson Harbour Board informally approached Dr Roger Blakely, head of the special projects section, about its harbour development plan.

Harbour Board general manager Frank Baldwin says the board had seen work the section had done and was highly impressed with it.

The ministry's first reaction was an arms-length one.

On April 10, it wrote to the harbour board saying that while the section was capable of doing the work it could do so only when good reasons were provided why it could not be done by a private consulting engineer.

The ministry referred the harbour board to the Association of Consulting Engineers and gave the names of three consultants it believed were experienced in the sort of studies the harbour board wanted.

The harbour board was not put off.

It did invite two private firms of consulting engineers to, in Baldwins words, "make representations to us." One was Truebridge, Callender, Beach and Co, of Wellington (not one of the ministry's nominated firms).

But the harbour board also invited the special projects team to quote a work programme and cost estimate for the study. A verbal estimate was given.

On May 30, Baldwin advised the ministry the board had selected the special projects team to do the work. He suggested an early meeting to discuss terms of reference.

The ministry continued to play coy. It asked the harbour board to write to Works Minister Young if it still wanted the job done by the special projects section

On June 9, Truebridge, Callender, Beach and Co got into the act. Principal Howard W Hunter wrote his "dear Bill" letter.

(Hunter confirmed last week he had written the letter, but would not discuss its contents. Birch would not confirm receiving the letter, but did say he had received a number of letters from private firms about the special projects section.)

NBR understands that in his letter, Hunter objected vigorously to the section's involvement, saying it had made the harbour board "an offer they could not refuse".

(In fact, *NBR* understands, the section made no offer and its informal estimate was higher than Truebridge's.)

Hunter objected to competition from a state department which he alleged was not cost-accountable.

After detailing the severe contraction his firm had gone through in the economic downturn, Hunter asked Birch for "some assurances that the whole role of the ministry competing with the private sector will be reviewed."

Birch sent a "dear Howard" letter back by return post, saying he would discuss his comments with Young.

Seven days later the harbour board wrote to Young assuring him the special projects team had not attempted to set up in competition with private sector consultants.

- Baldwin pointed out that: in implementing the plan, the harbour board would have to deal with the ministry and other Government departments and there was a real advantage in the ministry having a full understanding of the plan;
- The special projects section's experience made it particularly well qualified to work closely with the harbour board's own specialist staff;
- The harbour plan was intended to form part of the regional plan, in which the ministry would be involved;
- If the harbour board became the maritime authority for the region, the proposed plan would form the basis of the maritime plan in which the ministry would again be involved;
- The quality of past work by the section was high and the sorts of studies it had done had much in common with the harbour development plan's requirements.

Meanwhile Young was assuring ministers the ministry was resisting the harbour board's request. *NBR* understands he and Deputy Finance Minister Hugh Templeton agreed they should do all they could to direct the work to private enterprise.

NBR understands also the ministry's top management supported this stance.

The next move was Birch's raising of the matter at the Cabinet works committee meeting.

The harbour board, meantime, remained unimpressed by this show of private enterprise solidarity

Baldwin told *NBR* last week the board was not anti-private enterprise.

He himself came from private enterprise to his present job. His chairman, Bill Gibbons, was a big private contractor in the region.

Nor did the board rush into its decision. It consulted widely — not just the ministry and the two consulting engineers, but other harbour boards which had gone through the same exercise.

It had gone for the special projects section because private enterprise could not match what the section could offer

That was principally the flow-on effect in dealing with Government departments and the regional plan issue

"The very best result can be achieved through combining the ministry's special project

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Lamb talks progress

TALKS between the Government and visiting Common Market farm commissioner Finn Gunderlach went "very well", according to Prime Minister Rob Muldoon. Agreement in principle was reached on all issues except the reduction in the 20 per cent levy on lamb which the EEC plans to cut, not abolish as New Zealand demands.

A NEW FOL-inspired industry-based wage-fixing policy took several steps forward with Employers Federation's blessing, a positive response from FOL advocates and a qualified welcome from the Government.

WELLINGTON shop-workers showed little support for their union's campaign against Saturday trading despite a one-day strike in Auckland.

AN agreement signed at the South Pacific Forum meeting will allow forum countries duty-free and unrestricted access to Australia and New Zealand for most of their products. Restrictions were put on some products to safeguard the interests of the Cook Islands, Niue and Western Samoa. The restriction on orange juice was a blow to Fiji.

IRAN sealed its borders and closed airports and harbours for 48 hours after an attempted military coup.

A GOVERNMENT-sponsored special report on unemployment revealed an inadequacy of presently-known causes and effects, as a result of which decision-making could easily be misguided.

THE Auckland Milk Corporation lost three export orders for yoghurt to Hong Kong and Singapore as a result of strike action. The deal might not be recovered.

POOR summer sales and limited shelf life forced the Dairy Board to give away 50,000 cartons of Zap, the flavoured milk drink packed in cardboard cartons.

SHAREHOLDERS are likely to lose $4.7 million and secured creditors $2.5 million in the Mosgiel collapse. Mosgiel's debts total $9,141,571.

FINANCE is being sought by the Government to help a new company establish a woolskin processing plant at Shannon.

AS a protest against the road-user tax Auckland truck drivers met to gain support for a blockade of Parliament.

THE National Opera received a Government grant of $100,000 to meet its expected deficit for the year.

AUCKLAND'S penniless Symphonia will be replaced with a newly funded regional orchestra.

TECHNOLOGY and innovation in manufacturing industry is the focus of a discussion paper released by the DSIR. Among its conclusions: industry lacks extensive specialisation, low productivity and overall its level of technology is not high.

ANOTHER "secret" trial began in the Wellington High Court, the last in a series of three.

NORMAN Leslie Shelton, number three in the National Cabinet of 1970-71 died at the age of 75.

IRAN released one of the 50 Americans held hostage for medical reasons. Richard McQueen was flown home to be treated for multiple sclerosis.

LIGHTHOUSE keepers questioned the Government's claim that automation would save $600,000 annually by pointing out the high cost of the automative equipment.

REDUNDANCY payments to Mosgiel Ltd's workers will average $2000 and total more than $2 million.

The business week

The **British Steel Corporation** sold $6.25 million of its $7.6 million shares in **Steel and Tube Holdings Ltd** plus its 16.1 per cent holdings in **Pacific Steel Ltd** for a total of $13.25 million to **Fletcher Holdings Ltd.**

Southern Cross Hotel (Dunedin) Ltd reported an audited tax-paid profit of $20,910 for the year to April 30 ($53,298 last year). A final dividend of 9c is payable on August 19.

Tolley Holdings Ltd reported a total tax-paid profit of $1,067,000 for the half year to March 31. An interim dividend of 5c is payable on September 9.

Humes Ltd agreed to the transfer of the shareholding of **Hume Industries Singapore Ltd** to **Hume Industries (Malaysia) Ltd.**

Vacation Hotels reported a tax-paid profit of $590,996 for the half-year to April 30 ($588,490 same period previous year).

Manthel Holdings Ltd reported an unaudited tax-paid profit of $170,000 for the year to March 31 ($478,000 last year). A final dividend of 8c is payable on August 22.

New Zealand Motor Bodies Ltd and **Emslie Consolidated Industries Ltd** agreed to merge, subject to Commerce Commission approval.

Christchurch Gas Coal & Coke Ltd will shut-down in March 1982 as a result of the Government's energy policies.

Dominion Breweries Ltd reported an unaudited tax-paid profit of $6,532,796 for the year to March 31 ($7,139,021 last year). A final dividend of 10 per cent is payable on August 18.

The week ahead

MONDAY: A three-man delegation headed by deputy high commissioner to Britain Brian Lynch will attend the 32nd annual meeting of the International Whaling Commission.

TUESDAY: Mount Hutt Ski & Alpine Tourist Company annual general meeting in Rakaia.

Select Committee on Electoral Law hearing.

WEDNESDAY: Independent Newspapers annual general meeting in Wellington.

Select Committee on Commerce and Energy looks into Companies Amendment Bill.

Select Committee on Labour and Education looks into the waterfront industry and railways.

THURSDAY: Preliminary hearing of the Commission of Inquiry into the Marginal Lands Board application by Jim and Audrey Fitzgerald.

Brother Distributors annual general meeting in Christchurch.

Aurora Group annual general meeting.

FRIDAY: National Party conference opens.

W Sutherland & Co annual general meeting in Auckland.

Alex Harvey Industries annual general meeting in Auckland.

Hauraki Industries annual general meeting in Auckland.

Continued from Page 1

team and our own executive staff," he said.

Baldwin said that price was only an incidental consideration. He did not disclose the quotations, but *NBR* understands the special projects section quote was higher — by some $10,000 — than Truebridge's quote.

Baldwin said the board had examined work done by Truebridge Callender on the environmental impact of wharf development at Kaiwharawhara (in Wellington).

It had also examined a string of special projects section reports — two east coast harbour development projects for Gisborne and Hicks Bay, a feasibility study of alternative southern Cook Strait ferry terminal at Clifford Bay, an environmental impact report for a proposed new wharf at Devonport Naval Base and a design report on berthing facilities at the base and a report on containerisation and port development for the whole country.

Baldwin insisted that the development plan involved no design work for construction. He expected that would, as usual, go to private designers.

At the moment, he said, two private firms of consultants were engaged on projects for the board.

The special projects team was set up 15 years ago. It consists of 15 engineers and 13 draughtsmen.

Pig producers' do-or-die bid to save bacon

by John Draper

EXPENDABLE pig producers, abandoned by the Government's free-trading lobby, are launching a $750,000 survival bid.

It will be a do-or-die effort for the producers, who were hit last year by low-cost imports which forced the Pork Marketing Board to intervene as prices plummeted in April and May.

Prices are recovering from the crisis minimum of 135c a kilo, climbing above the estimated break-even price of 160c by 5c and showing signs of strengthening.

Despite strong words from Agriculture Under-secretary Rob Talbot, who recently told the Pork Industry conference that the problems were much of their own making, confidence is creeping back into the industry.

A controlled industry with licensed producers and quotas, as the bigger producers were demanding, was not the solution, he said.

"We have seen enough of 'safe' cost-plus monopolistic industries to know that they do not always solve the problems and probably mitigate against efficient, economical, competitive farming."

And controls were not in the consumers interest, Talbot said.

The industry, particularly the processors, were largely to blame for the crisis by overestimating the demand for Christmas hams when ordering in July last year.

Consumer resistance to high prices led to a drop in demand which resulted in an oversupply of bacon pigs earlier this year.

The decision coincided with easier access for Irish, Canadian and Australian pork granted as concessions in the latest round of Gatt negotiations that were finalised last year.

Producers have accused the Government of sacrificing pork for butter, cheese and sheepmeat access to Europe and North America.

"The Government is not in the business of putting up trade barriers for agricultural products," Talbot said.

Ideally, the Pork Marketing Board wants to own and control the product, but producers vetoed the proposal despite the advice of Massey University marketing professor Wayne Cartwright.

But producers did approve the fighting fund of a $1 a pig which will be used to pay for extensive consumer research and to give pork a brand image, an essential change from producing pigs to marketing and products.

Instead of two pigs, the board will be encouraging producers to sell only one, a bacon weight pig which the processor/-wholesaler can use to satisfy market demand in the most profitable way.

New cuts — medallions, butterfly steaks, spare ribs as well as leaner, meatier chops — will be introduced to impress consumers that pork is good value.

The board's position with individual producers and processors has strengthened considerably as a direct result of its intervention buying and successful promotion campaign to "bring home the bacon, mum".

Research by Heylens since the campaign began on May 26 shows sales have increased by 28 per cent. And the board, which nearly went broke trying to prop up the market, now hopes to break even before Christmas.

Fresh pork sales have also picked up as a result of extensive promotion in Auckland and Christchurch, where wholesalers and retailers were encouraged to cut prices.

Pork has the greatest potential growth. Only 7 per cent of households buy it weekly. And in that group 20 per cent of households eat 80 per cent of the product.

The board now aims to aggresively market the product to attract the majority of very occasional sales with the new cuts and better presentation as has already been done in Europe, Australia and North America. It will be the beginning of a long term change for the industry, promoting pork and bacon 12 months a year and searching for new products and uses for the meats.

If successful, the campaign should bring about a revolution in the pig industry. Consumer demand for the new cuts and bacon products will increase the influence of processors, who are expected to provide specialist fresh pork cuts for the supermarket trade, and because of the increased demand, be more ready to give producers long contracts at stable prices.

ABC shipping line wins Australian wool contract

by John Draper

TSVI Rosenfeld's non-conference ABC Container Line will ship more than half the wool put up to open tender by the Australian Wool Corporation.

ABC came out the clear winner against the conference lines by offering rates which are understood to be at least 20 per cent below normal to Europe.

The Wool Corporation put 40,000 bales, about 4 per cent of total wool exports, out to tender earlier this year on behalf of the Wool Commodity Group, representing wool buyers, Federated Farmers, the corporation and European mills.

ABC's share amounts to just over 20,000 bales to be shipped in 250 containers within the next two months to Belgium, West Germany, Britain and Italy.

But ABC's success is unlikely to lead to any agreement with the conference lines to Europe and Britain.

Rosenfeld angrily rejected suggestions (*NBR* July 7) that he had sought to join the conferences serving Australia, as we had been led to understand by conference officials at the recent Exports and Shipping Council forum.

In a message sent through his Auckland agent, Rosenfeld said: "I have never held discussions with the conferences serving Australia with a view to joining them. After all, why should I?"

Within the conference system ABC would probably be limited to one ship on the basis of the amount for Belgium.

With Australian farmers backing the tendering system for primary producers cargoes, Rosenfeld is hoping that Federated Farmers will ratify a decision calling for 20 per cent of New Zealand cargoes to put up for tender every year.

The week

Company protection increases cost of safeguards

by Warren Berryman

THE cost of protecting homes and businesses against thieves and vandals has been increased to protect two local manufacturers against imports.

Burglar alarm manufacturers are responding angrily to a Customs Department decision to apply a 40 per cent duty to imported passive infra-red intruder detectors from June 5 1980.

The duty was applied to protect Altron Industries Ltd and Philips Electrical Industries of New Zealand Ltd, both of which have began manufacturing the detectors here.

Detectors can be imported from the United States for as little as $85 cif and retailed for about $120. The 40 per cent duty will raise that price to $163.

Philips' detector goes for $264 and Altron's detector for $140.

Burglar alarm manufacturers claim the locally made detectors are overpriced, poorly designed, unattractive in appearance and untested.

Manufacturers told *NBR* they would continue to buy imported detectors rather than take a chance with the locally made product. The net effect of the duty would only be a higher price to the consumer.

These manufacturers say the protectionist measure is inconsistent with the Government's policy to move to a position of comparative advantage in world trade, import what we can't make here at world competitive prices and concentrate on what we can do well.

Passive infra-red detectors – the latest thing in burglar alarms – work, unheard and unseen, by detecting moving body heat.

The use of these detectors has grown rapidly over the past year.

Rhino Security Ltd director Humphrey O'Leary said that last year his company was using one of the detectors every three months. Now his company was using up to 15 infra-red detectors a week.

Previously they could be imported duty-free under a Custom's concession, because they were not then made in New Zealand.

About 19 different models of detectors were imported, giving burglar alarm manufacturers a choice of detection ranges and scanning widths so they could tailor-make systems to fit particular premises.

Altron makes only two models of detector, one that stands out from the wall, another that fits flush with the wall. The duty protects Altron from all imported models, including those it does not make.

O'Leary said the duty would add $300 to the $1500 cost of protecting a medium-sized store.

He said his company had no intention of using the locally made detectors, primarily because they had not been tested in use.

If the system failed it could have expensive consequences for his customers, he said.

An importer and retailer of infra-red detectors said his customers were continuing to buy imported detectors. "My customers would rather pay the extra when security is at risk," he said.

Altron Electronics director Ian McCallum said sales of his company's detectors were going well, now that the duty had been placed on imports. Without the duty his prices could be undercut by 10 to 15 per cent.

McCallum said his company expected to export detectors within six months.

How could Altron compete on overseas markets when it could not compete on the New Zealand market without protection?

McCallum said he would charge less for his detectors in Hong Kong, Australia, and the Philippines than he charged here. He would be able to do that overseas because of export "subsidies", he said.

Examiner's promotion of business competition increases in size and scope

by Rae Mazengarb

IT has been a busy year with plenty of public exposure for the Examiner of Commercial Practices, Allan Monaghan.

Charged with promoting competition in the business community, last year he consented to 111 merger or takeover proposals, investigated 165 complaints alleging restrictive trade practices, monitored the growth of collective pricing agreements and actioned 536 consumer complaints and inquiries.

The latest annual report of the Department of Trade and Industry, details the commercial practices and consumer services handled by the examiner in the year to March 31.

During the year collective boycotts by traders and trading coupon schemes were added to the category of examinable trade practices and both pyramid trading and the supply of trading stamps became prohibited practices.

An amendment to the Commerce Act – permitting the Examiner to refer takeover proposals to the Commerce Commission when he is in doubt concerning the public interest where a major proposal is concerned – was used for the first time in the case of the L D Nathan and Co Ltd takeover of McKenzies (NZ) Ltd. After its first public inquiry into a takeover, the commission consented to the proposal, the report reminds us.

The 111 merger or takeover proposals approved by the examiner last year compared with 73 the previous year. And as one official pointed out, he handled only the biggest.

The report notes that the substantial increase in the number of proposals notified "is making more evident the tendencies observed in previous years".

For example, medium-sized and efficient family companies reach the position when their founders or successors wish to retire. A larger company with related interests sees the opportunity to acquire an established and efficient company as an attractive proposition.

Then there are the takeovers which are best described as "rescue operations". The report notes that such circumstances will generally lead to a loss of competition and a strengthening monopoly situation but says the benefits of a takeover in terms of employment or regional development can weigh heavy in favour of the proposal.

But the dominant feature of the last year has been the move by large companies to expand their interests and strengthen their competitive position.

Associated with policies of divestment of unprofitable or incompatible interests, this growth of dominating major industrial companies is a comparatively new factor in New Zealand business, says the report.

"We are now faced with the growth of conglomerates – companies whose activities spread through unrelated fields of business activity."

But the report warns that the need for them and the extent that they may assist or hinder the development of New Zealand industry "is a matter which will require careful examination in the future".

At the same time major companies are more aware of the importance of conforming to "public interest" criteria when contemplating mergers or takeovers. The report says some now make a point of consulting the examiner informally before submitting their proposals.

Trade practices have gained their fair share of public attention, says the report.

Major current areas of work involve investigations concerned with allegations of restrictive trade practices in the distribution of alcoholic beverages, in the insurance industry and certain rules relating to stockbrokers' operations.

The major case last year was the public hearing on Visa and other bank cards.

The alleged refusal by Wellington-based Philips and Pike Ltd to supply Westport-based Bailie Wines and Spirits Ltd was a drawn out complex case which resulted in a substantive public hearing in March this year. The case is still proceeding.

Comment

Editorial

ENERGY Minister Bill Birch has praised CNG as "the most certain and economic alternative fuel for those vehicles close to the gas pipe lines". But the Auckland Automobile Association has advised motorists not to consider converting their vehicles to use alternative fuels "until the present disadvantages of doing so are resolved".

The AA is concerned that the advertisement of fuel-conversion kits, supported by the Ministry of Energy, is tempting many car owners to make what could be nasty and premature investments. Association president P J Osborne said CNG and LPG should be sensible moves for taxis, company cars and sales or delivery vehicles. But he considered it "dismaying" that too many motorists are climbing on to the alternative fuels bandwagon "without knowing the facts of supply, cost and inconvenience".

Energy Undersecretary Barry Brill promptly took issue with what he called bad advise that was "unhelpful, to say the least". But the realities of the conversion programme are that CNG and LPG are in severely short supply, there are few operational refuelling stations, technicians qualified to inspect and install equipment are scarce, and vehicles still must run on petrol most of the time. Private motorists are not being encouraged by the Government to convert, conversion kits are subject to disincentive taxes, and motorists must got through a complicated procedure to pay a road-user tax if they use an alternative fuel.

Brill rejects any scepticism that the projected 150,000 conversions will be achieved by the end of 1985, apparently convinced that in five years the reticulation of natural gas will have extended to a much wider area, and as that extension occurs, greater numbers of vehicles will have access to CNG filling stations.

Out in the marketplace, the attitude is different. Bob McMillan, managing director of the country's busiest conversion centre in Auckland, said earlier this month that the CNG conversion programme was running out of steam and urgently needed a boost. Two conversion companies had already folded, he claimed. And he warned that unless the Government stepped up its programme, the target of 150,000 would quickly fade because "people seem to have the impression that conversion is not the thing to do".

The industry, generally, was disappointed that the Budget failed to provide fresh incentives to encourage the conversion campaign. As things stand, some 25 per cent of conversion-kit costs are taken by the Government in taxes (adding a significant $200 or so to the price). Companies are allowed a 100 per cent tax write-off for the cost of converting business vehicles. The private motorist gets no such benefit.

The Energy Research and Development Committee recommended 15 months ago that the import duty and sales tax on conversion equipment be abolished. It recommended, too, a tax rebate of $150 a year for three years for all private motorists who install CNG tanks and called for regular reviews of the financial incentives to ensure that conversion to gas continued to be encouraged. That advice has been ignored.

The road-user tax system, too, needs a drastic overhaul if people are to be encouraged to switch to dual-fuel vehicles. Owners of cars that can operate on CNG or LPG do not pay an annual licence fee on their vehicles. They must contend, instead, with the complicated procedures required under the Road User Charges Act. When motorists fill in the requisite forms, they must nominate the estimated distance the car will cover in the period of the licence and use a detailed series of charts to work out the charges that need to be paid on the distance they think they will cover. The administration fee on the licence is $2, plus the actual tax for the distance claimed.

The Government-established CNG Coordinating Committee is said to have recommended to the Government last year that the procedure be scrapped and replaced by a system — as with petrol — of incorporating the tax into the retail price. But according to the *Evening Post*, its inquiries with the Ministry of Energy had indicated that while the idea was being looked at, no immediate prospect of change appears likely.

The state itself appears to recognise the benefits of CNG. A survey has shown that almost one-third of public service vehicles with close proximity to a gas pipeline (those immediately suitable for conversion to natural gas) will be converted by the end of the financial year. The Post Office will have 417 vehicles of dual-fuel capacity by the end of March, by which time there will be five Post Office filling stations (at Auckland, Hamilton, Palmerston North, Lower Hutt and Wellington, with three more to be built at Auckland, Wellington and New Plymouth next year).

But the benefits for private motorists are downgraded in the Government's considerations. Brill expects a large percentage of conversions to be in fleet vehicles and company cars; only a small percentage of conversions would be carried out by private motorists, he has said. He concedes that only a small number of businesses have "made a firm commitment to go ahead at this early stage", while he optimistically anticipates that "the next year or two could see considerable momentum as they are provided with proof of its distinct advantages and take into account the tax incentives offered".

Energy Minister Bill Birch has endorsed that attitude to the private motorist. In the Government's future planning for transport fuels, he has said, CNG has an assured role to play — but a limited role. For certain vehicles, says Birch, the commercial, national and foreign exchange savings through using CNG would be considerable ... "but there are limits to the number of vehicles which it is desirable, or even possible, to convert." He seems satisfied that smaller and low-usage cars will find it uneconomic to convert, and should not be encouraged to make the capital outlay. He wonders, too, about the savings in foreign exchange from reduced petroleum imports when they are set against the costs in foreign exchange incurred in the purchase of CNG conversion kits.

Bob McMillan, however, has found that private motorists are far more interested in conversion than the Government seems to realise, and Auckland Gas Company executive J McDowell said that lack of extra help in the Budget for private motorists was particularly damaging, because they held the key to the establishment and commercial viability of public CNG refuelling stations. Significantly, Brill's Valiant car has been converted to run on CNG.

It all boils down — as Birch has said — to the economic benefits perceived by vehicle owners. That is why "the programme approved by the Government is a flexible one, capable of being expanded as the situation demands." Those circumstances have already changed fundamentally. The target of 150,000 conversions by 1985 was adopted a year ago, and presumably was based on calculations which included the price of oil and projected rates of increase. At that time Saudi light was costing $18 a barrel which energy advisers forecast would reach $28 by 1985. The price has already gone beyond that. Thus the Ministry of Energy already has every justification for revising its conversion target. As the oil price soars at a rate much greater than anticipated, CNG conversion should become more attractive to the average motorist.

Sticking to its obsolescent oil price projections, the Government plans to put 33 per cent of petrol cars on synthetic petrol in the next five years, while converting to CNG only 10 per cent. It seems peculiarly unwilling to budge from that strategy despite the comprehensive undermining by the Opec states of the premises on which it was based. Thus it appears hellbent on trying to sustain the viability of a costly and questionable synthetic fuels project whose need should be lessened by a more forthright encouragement of the CNG alternative.

— Bob Edlin

Without word of a lie

A double play for flying softballers

THE Government encourages sporting bodies to go to private enterprise for assistance and sponsorship. Indeed, such initiatives are among the factors considered by the Government when deciding elegibility for grants under the National Projects Scheme of the Recreation and Sport Programme.

But the Government makes sure none of this grant money filters back into private enterprise once a travel grant is given.

If the sporting body accepts a Government grant to travel overseas, it must book through the Government Tourist Bureau and fly Air New Zealand.

This might make it difficult for the sporting body to fulfill the criteria of going to private enterprise for assistance or sponsorship.

Take, for example, the New Zealand Softball Association Inc. Holding first equal place in the world with Canada and the United States, the team wanted to fly to Tacoma, Washington, for the international men's championships.

The Softball Association receives sponsorship from Pan Am and Stars World Marketing Services. And the association thought it "unconscionable" to consider travelling other than Pan Am or booking through other than Stars.

So it wrote to Recreation and Sport Minister Allan Highet, outlining the dilemma and asking for a Ministerial waiver of the condition that the team must fly Air New Zealand.

Request denied, Highet said. But he did suggest an escape route for any sporting body wanting to receive a sponsorship from private enterprise without smacking its sponsor in the eye by flying with the Government-owned airline.

One might get a Government grant for a non-travel purpose, like buying softball mitts, and still be free to spend one's own money, or a sponsor's money, flying with the airline of one's choice.

Why bright ideas are sold overseas

SOME see local inventors behind the small-scale — high value concept as those who might turn this country into the "Switzerland of the South Pacific."

But inventors are being advised to take their bright ideas and patents elsewhere for sale.

Why? Because New Zealand taxes patent sales as income, not as a capital gain. There is not much joy in getting just 40c in the dollar for the bright idea of a lifetime.

The DFC's Applied Technology Programme was set up with Government money to encourage these inventors. But as professionals, the DFC men find it hard, considering the tax system, to advise their clients to make a loss by selling ideas here.

Tall ships still plough our waters

HISTORICAL attitudes are often blamed for keeping New Zealand "10 years behind the rest of the world".

But is Wellington Harbour Board lagging 100 years behind?

The latest copy of the board's bylaws and regulations-dated July 1979 — required pilots "to have served for at least a year in a grade not lower than that of second mate of a square-rigged sailing vessel".

One irate shipper after enduring two days of name calling and continual parochial battling at the recent Exports and Shipping Council Forum, said that gave a fair indication of the average harbour board's responsiveness to new technology and trading conditions.

But the Wellington Harbour Board had left the apparently absolete clause in the bylaws for good reason Deputy Harbourmaster Captain Alan Jenkins said: "It has always been our attitude that a pilot with sailing ship experience is our automatic first choice."

And three qualified pilots on the board's staff including himself all had the necessary square rigger experience, Jenkins said, which was not so irrelevant with "tall ships" still sailing the seven seas.

Getting more cents out of Martinborough

ANOTHER example of the Post Office' optimising profitability opportunities: in telegrams, words over 10 letters are charged as two words.

This applies to the names of towns such as Martinborough. Thus every time a telegram is sent to Martinborough, the sender is charged for two words.

The interesting thing is that when Ben Couch, Postmaster-General, and local Wairarapa MP, was accosted about this practice, he denied all knowledge of the policy. "You must be dreaming," he was quoted as saying.

But the policy, we hear, continues.

Exodus continues to Land of Oz

THE exodus continues. An Auckland family making the shift to Australia reports that their bank told them they were the 42nd family that went to arrange for a transfer of funds to Australia, their moving company told them they were the 80th trans-Tasman moving job that month, and their pre-shift garage sale was one of 120 advertised in the Saturday papers which bore the legend "owners going overseas."

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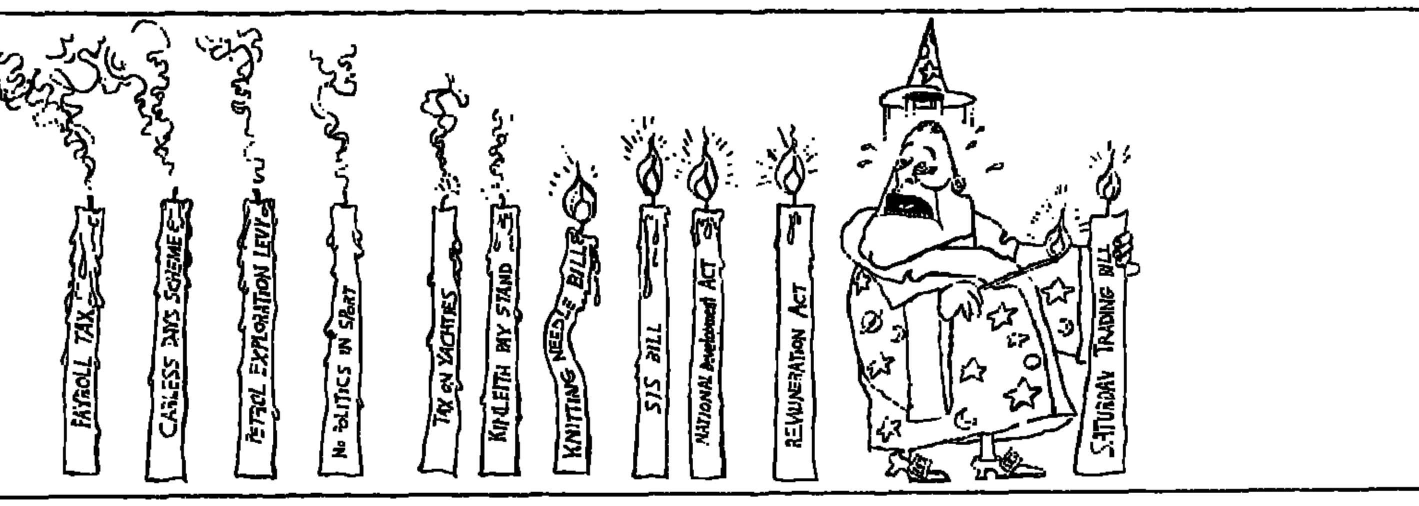
Brockie's view



Comment

Credibility taxed by a private enterprise banner

by Warren Berryman

ROB MULDOON has been far too modest, claiming his 1980 Budget is unspectacular and "neutral in effect".

How many private companies turn out annual reports in these depressing days showing results anything near as spectacular as those for Muldoon's NZ Inc?

Look at the debts receivable column. Go back a few years, and in 1969, total income tax was $691 million. This year it will be $5400 million. Not many private companies can show an eight-fold increase in income over the past gloomy decade.

The Government, in spite of the fact that it makes and grows nothing, has been a spectacular growth industry since Muldoon took over the reins in 1975. In 1974 Government spending was only 29.2 per cent of Gross Domestic Product. This year Government spending should top 38 per cent of GDP.

More spectacular is the size of Muldoon's empire. For a man elected by a private-enterprise-leaning political party, hasn't he done well? Twenty-seven per cent of the work force is employed by central or local Government. There are 5000 politically appointed quango jobs to say nothing of the vast army of quasi-civil servitude employed by the Railways, the NZ..., Air New Zealand, and so on.

And all this bureaucracy begets anti-bureaucracy-bureaucracy, creating jobs in the Manufacturers Federation, Employers Federation, Federated Farmers, and so on . . .

The achievements? Well, there's a national airline that has just lost more than $20 million, a Railway that hasn't seen a profit since — when was it? And a State-owned oil exploration team headed by political appointees and career civil servants, busy pouring taxpayers' millions down dry holes.

At this spectacular rate we must be within sight of that Socialist utopia where everyone lives at the expense of everyone else and no one actually has to get his hands dirty being productive.

Muldoon started his budget speech with ringing phrases more than somewhat reminiscent of those of John F Kennedy. "This is a time in our affairs when everyone must accept that it is what they can give, not what they can take, which matters. Unreasonable sectional and individual demands must be subordinate to the national interest."

Presumably the "national interest" about which Muldoon speaks must be something other than the pluralistic interests of the people. Definitely something other than the interests of that diminishing proportion of the population still employed in productive labour working seven days out of 10 for the Government and only three days for themselves.

The national interest spoken of must be, in fact, the Government's interest to which we common folk must sacrifice our interests — a spectacular shift from the old National Party ideal of the State serving man to man being a mere functionary of the State.

Unionists might sum it up in a phrase: "4.5 per cent for the workers, a 21 per cent raise for Government".

Muldoon had stern words for the workers in his Budget. "Today's dirty word is inefficiency, not profit. We are not rich enough to accept inefficiency in any form. We cannot afford to misuse our resources of labour, capital, land and entrepreneurial talent . . ." he said.

One might find evidence of Governmental inefficiency in the fact that it now costs nearly eight times as much to govern fewer New Zealanders than it did a decade ago. And the extra administrative overhead for NZ Inc has produced negative productivity growth, falling profit levels (for productive business) and no real growth.

But perhaps certain extra-administrative overheads are justified by the unruly nature and subversive intent of the population. Muldoon obviously saw this when his Budget voted a 47 per cent increase for the Security Intelligence Service.

And then perhaps the analogous way of looking at the Budget as a balance sheet for NZ Inc breaks down. The Government's habit of taking $1 from the taxpayer, spending 60c of this dollar in administration, and handing the taxpayer 40c back as some benefit or another is certainly not as efficient as allowing the taxpayer to hold on to his own dollar and spend it himself.

However inefficient, the former method has the political advantage of replacing the citizen's self-reliance with reliance on a politician and it allows, the politician to buy the citizen's vote with the citizen's own money.

Muldoon's Budget shows a convenient eclecticism when it comes to taking advice from those "economic illiterates who masquerade as political journalists" and desk-bound academic economists. Since 1978 several notable economists have urged Muldoon to reduce income tax and increase indirect taxation. The reduction in income tax would provide an incentive to work and put more money in the workers' pocket. Increased sales taxes would provide a disincentive to spend and an incentive to invest in productive enterprise — or so said the economists.

Muldoon seems to have accepted at least half the equation. He slapped new indirect taxes on air fares, sherry, and cigarettes, and effectively increased income taxes by allowing inflation to push everyone into higher tax brackets.

The Budget shows Government to be bigger and hungrier than ever. The only gloomy aspect facing the politicians and their dull, grey army of civil servants is the certainty that Government, like any other parasite, will continue to grow only so long as it does not kill its host.

History's lesson, as Californian economist Arthur Laffer shows in his Laffer curves, is that when taxes go up, economic activity goes down.

There is good reason for believing the tax burden is becoming too much for the productive New Zealander to bear.

Warren Berryman is *NBR*'s Auckland reporter

Letters

Darwin not duplicated

IN your June 9 *NBR* you published an article on the reprint of Charles Darwin's *Zoology of the Voyage of HMS Beagle.*

You made the comment: "I should be specially guarded in my assessment without some knowledge of the number being published abroad". If you had read the brochure fully you would see that we have specifically stated that the set is issued as a limited world edition of 750 copies.

It should be obvious to yourselves and purchasers that with a numbered edition you can neither duplicate numbers nor exceed the specified quantity. The probability of two sets of books being discovered with the same number would certainly destroy the publisher's credibility and affect future sales.

With regard to the investment value of these books we would like to made the following comment and leave it to potential purchasers to decide.

The *Voyage of the Beagle* and the material collected and recorded in this work proved to be major factors in the formulating of Charles Darwin's Theory of Evolution. The contents are of great historical and scientific interest. The *Beagle Zoology* was originally issued in an edition believed to be less than 100 copies. It has never before been reprinted in full.

The many fine colour plates including the 50 plates of birds by John Gould are of exceptional artistic quality.

The printing, binding and materials used for the production of the work are of a very high standard and at today's book prices, $675 for three volumes represents excellent value. It should be noted that some expensive single volume limited edition books are currently being marketed in this country at $350 or more, in editions considerably larger than this work.

As an export orientated company, (over 90 per cent of this edition will be exported) we could have hoped for some encouragement, or restore our opinion of your journalism and show our intention in making this rare work available to a wider market, in a high quality format and at a realistic price.

Roger G Chapman
Managing Director
Nova Pacifica
Publishing Co Ltd

Marxist in their midst?

I FEEL I should bring it to the attention of your readership that the New Zealand Employers Federation is headed by a Marxist. In issue Number 64 of the *Employer* the executive director of the Federation Jim Rowe states: "Some more extreme leftists, of course, simply want a transfer of power from employers to union officials so that the latter become effectively the Government."

The direct implication of this dictum of course is that the employers are presently the effective Government. I have shared this suspicion with Mr Rowe for some time, and think that it is refreshing to see such frankness in an employers leader.

Rob Campbell
Industrial Officer
Combined Unions

Bemoaning the Budget

A LITTLE over two years ago I retired to Taupo and now feel very remote from the mainstream of economic and political action. In my previous existence I had considered it necessary to read all the major items of wisdom issued by the Government, including each year's Budget, but now I find this difficult and rely on the media to perform this task for me.

Your paper is one of my few sources of information, and I was interested to read Bob Edlin's editorial (*NBR* July 7), that "the details in this year's Budget are scanty" but that there are a number of decisions soon to be announced.

I have not read the last three Budget speeches but I have quite clear memories of similar deferred decisions in other Budget speeches in the mid-to-late 1970s. Whip-feed is typical Muldoonism.

On the subject of Budgets, I am finding it increasingly depressing to read comments by various politicians of both major parties which indicate that in their opinion, saving is sinful and private investment iniquitous.

Did the Minister of Finance include in this latest Budget any veiled but so far unpublished hints on this subject?

The dividends received from miniscale savings, painfully accumulated before the boom times and fantastic salaries of the présent inflationary period, have made so far all the difference between austerity and comparative comfort.

But the current attitude that superannuitants should be means-tested, and/or prevented by fair means or foul from travelling internationally or externally and/or taxed at a punative level on any investment income is beginning to cause me to think I should go on one last glorious binge before I am taken over by an all-caring, all-consuming quasi-socialist bureaucracy.

Could you please give me guidance?

Name and address supplied

Scurrilous cartoons

THE skill of a cartoonist should be based upon a real appreciation of satire at its best, and an acknowledgment that there are some positions which should not be demeaned in any way.

"Brockies" cartoon (*NBR* July 7) is cheap and nasty where it casts doubts on the Queens representative; and furthermore it lessens the value of your journal.

In all consciousness, why do you "talk down" to your readers in your cartoons, when the rest of the paper pays great tribute to journalism at its best?

I for one am not interested in the scurrilous junk that poses as indications of current events in the cartoons published weekly.

Alan L Peterson
Auckland

Appalled at allegations

I WAS appalled, no disheartened, to read (*NBR* June 23) allegations made against meat inspectors.

The "Special Feature" article was claimed to have been written by: "A management consultant with wide experience of the freezing industry."

The calibre was greatly out of place in a magazine normally containing material of a high calibre.

This jongleur has achieved a degree of laughter, after contemplation, normally unheard of in my humble abode, by his/her ludicrous and grossly hyperbolistic claims.

K Gutsell
Meat Inspector
Southland

Old quotation finds owner

MR J Yuill (*NBR* July 14) is quite correct in assuming that the quotation attributd to me in *NBR* June 23 is an old quotation.

It dates to 1978-79 or perhaps earlier and derives from a comment made by a senior executive in the meat industry who attended the workshop on New Directions in the Freezing Industry (Massey University 1979).

C W Maughan
Massey University

Politics

Vatman finds ally in the National Party ranks

by Colin James

ONE of the better political developments in the past couple of years has been an outspoken willingness among some MPs to explore ideas outside the official party line.

The case of Roger Douglas is well known. He has been doing it for some years, with, recently, spectacular results.

The case of Mike Minogue on the other side is equally well known. He has frequently differed from his Government on constitutional and civil liberties issues.

MPs in New Zealand are generally expected to be seen in the division lobbies and heard, if at all, only behind the closed doors of the caucus room.

There have always been exceptions. Sir Leslie Munro's out-loud thinking on foreign affairs — delivered from the lofty eminence of his previous United Nations presidency — rewarded him with unrelieved back-bench status.

The present Prime Minister, too, did not always stick to the official Government tactical line. Recall, for instance, his "unholy alliance" tag for the collusion between the Federation of Labour and the Employers Federation in 1968 to overturn the Arbitration Court's nil wage order — a phrase that might readily have recurred to him last week over the wage-fixing agreement.

But these were very much exceptions. The tight everybody-knows-everybody nature of New Zealand politics and the narrow limits of policy *debate in the parties encouraged* anonymous conformism.

There are cheering signs that this artificial and unnecessary unity is loosening. Two of the probable reasons: a younger, more vigorous type of new entrant MP; and a much more fundamental questioning of policy in a time of transition.

It is a lot easier to be outspoken when recession-beleagured people want to hear new ideas than when everybody is cosily well-off, ears shut.

So, for example, Roger Douglas cheerfully retires from the front bench to pursue his line of thought. (Incidentally, Tony Benn survived five years in the 1970s British Labour Cabinet despite repeated open disagreements with the leadership, some every bit as serious as Douglas's.)

So also Derek Quigley has *made a habit of musing aloud* on changes he would like in the official Government line, particularly on spending and administration. He has been privately encouraging backbenchers to do some of their own digging on those subjects.

One who has responded with a paper he is now taking to the public is Michael Cox, English-born sailor turned MP for Manawatu. He wants a value added tax.

Cox is not one of the high fliers among the new backbenchers — no instant television package. He is far less obviously noticeable than, say, Doug Kidd, Ian McLean and Geoff Thompson.

He has not made a strong impression on opponents, usually quick to identify the up-and-comers. He seems less readily identifiable than others *as one of the 1978 pack.*

Yet one minister whose opinion I respect, rates him as one of the best of the newcomer MPs for his behind-scenes work.

So perhaps we should take a closer look at his tax ideas.

Cox is concerned about tax evasion. In his 12 years as an accountant legitimately helping people avoid tax they did not have to pay, he also came to suspect large-scale tax evasion was going on and getting worse — a sort of subterranean proposition 13 tax revolt, by individual stealth rather than collective referendum.

Tax also affects investment, he says, through a combination of high tax on profits (and high inflation) and pressure on profits from workers determined to maintain the spending power of after-tax incomes. *Low investment in turn limits* growth prospects.

His suggested way out: reduce income tax and switch the burden to indirect tax. Leave the ordinary person more discretion — through his spending and saving decisions — as to how much tax he will pay.

At 76 per cent of the estimated total tax take this year (compared, for instance with 42 per cent in Britain), income tax is too high, he argues.

Ho-hum, what's new in that? His party has been hammering it for years and even commissioned a report back in the 1960s by Lou Ross. The direct-indirect tax trade-off was part of its 1978 election appeal.

Well, one new element is a growing impatience among backbenchers and among policy groups in the party outside Parliament, which Cox shares and reflects.

"To date we (the Government) have not sold this equation as a package," Cox says.

"We have introduced piecemeal sales tax increases, alienating one group after another, without highlighting the direct tax savings accomplished on the other side of the equation."

The principal stumbling block has been the link between the consumers price index and wage rates. Cox rejects that excuse: if necessary, incorporate a new method of CPI compilation into any radical changeover, he says.

Easier said than done, as employers will tell you — though with the wage system now in the melting pot, maybe easier done now than for some time past.

Still, what's new?

The new element is Cox's choice of value added tax (VAT) as the vehicle.

VAT is charged at each stage in the chain of production, distribution and sale of an item. Each seller in the chain collects VAT as a percentage of the price at which he sells to the next purchaser in the chain, deducts the amount he paid in VAT to the person before him in the chain and sends the balance to the Government.

In other words he pays tax on the value he adds to components or the finished item.

The end-result is that tax equal to the given percentage of the final selling price ends up in the Government's hands.

Cox argues that VAT meets four important criteria of taxation:

- *Equity of sacrifice* — replacing the present concept that "those that earn more should pay more" with "those that spend more should pay more". Basic essentials should be non-taxable and luxuries taxed more highly to spread the burden.
- Certainty — the people being taxed know where the tax lies.
- Convenience of assessment — VAT would produce some inconvenience (almost every firm would be involved, compared with only wholesalers now, a high level of bookkeeping would be required and taxing some services would cause serious problems) but the positive factors in Cox's opinion outweigh the negative ones.
- Economy of operation — VAT collection costs to the state would be negligibly higher than income tax collection (*though I can recall voluble* complaints in British business at the extra work — and therefore extra cost — imposed on companies computing the tax and annoyance at the armies of "Vatmen" — inspectors — roaming through commerce).

In support of the switch, Cox argues that the tax is simple to operate, is automatically cross-checked and self-policing since tax-free purchases mean higher subsequent tax payments, is economically neutral (in that it encourages no distortions in existing production and distribution as some indirect tax systems do) and is a truly consumption tax.

His suggested version would tax all goods and services except exports, investment goods, essential commodities and services (say, housing, food and children's clothing), services direct to the end-consumer (for example, doctors), banking and insurance and very small traders.

At 7.5 per cent, Cox estimates (with the help of the Treasury) a VAT tax take in New Zealand in 1979-80 of $1045 million, at 10 per cent $1398 million, at 12.5 per cent $1741 million and at 15 per cent $2090 million.

Subtracting the current $600-odd million wholesale sales tax, that would have allowed income tax reductions of 9.6 per cent, 17.2 per cent, 24.7 per cent and 32.3 per cent respectively.

Those savings could, Cox argues, be so spread as to outweigh commercial "prejudices" from VAT and — through rebates — overcome the problems posed to those on low incomes by flat-rate tax on their purchases (another point of contiguity with Douglas).

I'm not enough of a tax expert to pass judgment on Cox's proposal. But he does seem to have history on his side. An increasing number of countries have adopted VAT.

VAT now applies in most western European countries, including the whole of the European Economic Community.

Six South American and three African countries, plus Mexico and, South Korea have also shifted to VAT, most since 1970. A VAT bill was introduced into the United States Congress last year.

And here? A firm commitment to a direct-indirect tax tradeoff in National's manifesto next year cannot be ruled out.

But there is no evidence yet of a forthcoming shift to value added tax. It is that willingness to break new ground publicly that marks out Cox's decision to air his thoughts. Public discussion of policy issues by MPs is a healthy sign.

Inflation story told by populisers and politicisers

Economics Correspondent

WITH this year's wage bargaining round in session, the causes of inflation have come under significant scrutiny. The explanations of the causes are as various as the number of vested interests involved in the wage negotiations.

The Government discussed some inflation causes in the Budget, arguing that "it should by now be clearly understood that excessive wage settlements boost inflation, check productive investment, increase unemployment and hinder the export drive to improve our balance of payments".

About the same time that the Budget was released, the Public Service Association released a research paper, *Wages, Prices and Taxes*, which looks at the link between wages and inflation, wages and unemployment and how the tax burden of workers results in inflation.

The PSA says that "wage control is no answer to the problem of the rising cost of living. If any anti-inflation policy is going to be effective, it is going to have to be comprehensive."

Living costs are still soaring. Most readers know this without being faced with any statistical evidence. But for those who require an indicator of the extent of inflation, the latest consumers price index shows that prices rose by 17.9 per cent when the index for the June quarter 1980 is compared with the index for the same quarter in 1979.

As the table illustrates, prices increased by more than 17.9 per cent for most items of expenditure. Fuel and light prices increased most rapidly at nearly 32 per cent. Prices for tobacco, alcohol, transport, fruit and vegetables grew by over 20 per cent.

While the 17.9 per cent June quarter inflation rate is a slight fall on the record March increase of 18.4 per cent it is still too early to tell whether the trend for the inflation rate is downward.

Other methods for analysing the consumer price index indicate that trend is upward. For the June quarter, prices rose by 4.1 per cent. This is a greater rise than the March quarter increase of 3.9 per cent and 3.8 per cent recorded for the December quarter last year.

When prices are averaged over the full year, the inflation rate is shown to have risen sharply since March 1979, reaching a record level of 17 per cent for June year 1980. As the graph indicates, the average inflation rate during June year 1980 matches the previous record of 17 per cent recorded in September 1976.

And the Organisation for Economic Cooperation and Development (OECD) estimates that prices are likely to continue to increase at an annual rate of 17 per cent for the remainder of the 1980 calendar year.

Finance Minister Rob Muldoon says the OECD forecast was not too far away from his own analysis. But he does not think the measured rise in consumer prices tells a true story about the impact of prices on the consumer's pocket book.

Muldoon thinks the basic rate of inflation is lower, closer to the 10 per cent rise in prices he has been promising since first elected in 1975. If wage and salary earners agree with him, then their wages will not need to expand by the full amount of the rise in consumer prices.

And that is the crunch. In its half-yearly *Economic Outlook*, the OECD gave three reasons for inflation this year being nearly four percentage points above last year's average annual rate.

These are the effect of indirect taxes and price increases for public sector goods and services, increasing wage costs and increases in import prices.

Muldoon cannot do anything about the increases in import prices. And since he is under pressure from his party not to let the Government's deficit get too large, he is relying on indirect taxes and price increases for Government-provided goods and services to expand the receipts in Treasury's coffers.

So he has little option but to control wages. And he further intends to control money supply growth to make sure that pressures for excessive wage rises are not accommodated by the existence of spare cash for borrowing.

The Public Service Association thinks that the link between wages and inflation is not well enough understood. Its latest research paper is an attempt to explain the link between wages and inflation to the layman and to expose some common fallacies.

Many things to into the making of the price of anything that is bought including imports, taxes, rents, interest, profits, raw material costs, promotion and selling costs and wages. If *any of these items cost more and* the firm is still producing the same output as before, the price of its product must go up or the amount spent on one of its cost items must fall to compensate.

The PSA agrees that "when wages go up, prices will go up unless there is a fall in some other component of costs, but it is important to be specific about just how wages and prices are linked".

"During the 1978 general wage order hearing, the Government Statistician told the court that his department estimated that if the whole of any general wage increase was passed on in prices, prices would rise by 0.376 per cent for every 1 per cent general increase in wages."

So from this, the PSA reasons – "if there is a 10 per cent wage increase, this will have the effect of increasing prices by 3.76 per cent. This is the final effect, after flow-ons."

The PSA points out that workers are also consumers. When their wages are increased, their demand for goods and services expands. If economic conditions are right, this can stimulate production. As firms increase their output to meet wage-earner's desire for goods, economic growth will expand.

The PSA says wage increases in the past have not been effective in stimulating economic growth because the tax burden on workers has been rising steadily, not only in money terms, but as a share of the wage packet.

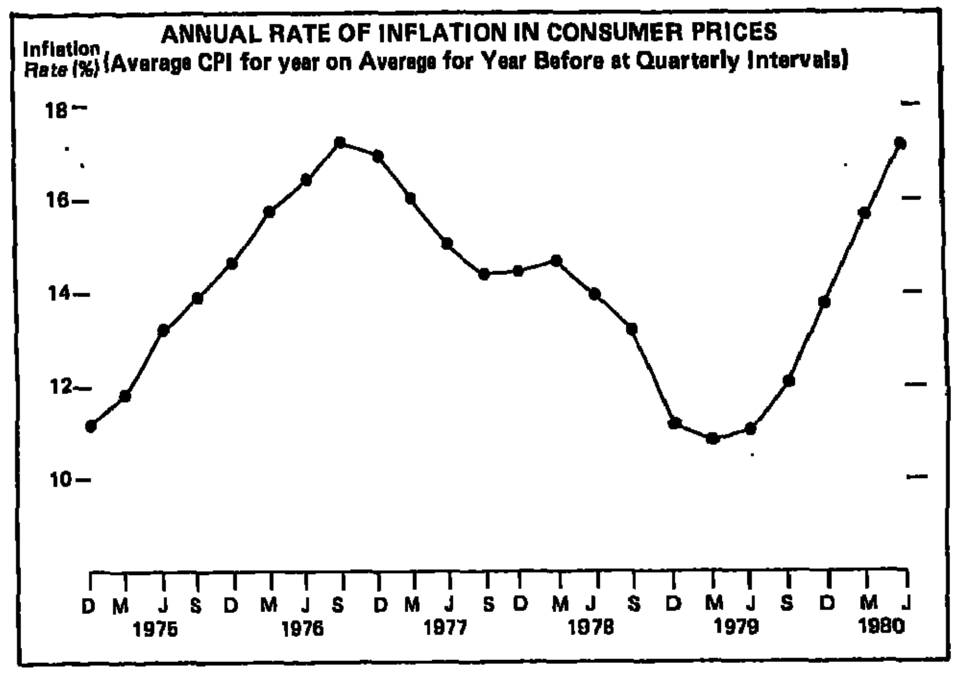
And the PSA claims that "the problem of high and rising taxes on wages arises out of the process by which the tax burden has been shifted from companies, inheritances and the like and on to individuals, who are, in the main, wage and salary earners."

The association concludes that "if any anti-inflation policy is going to be effective, it is going to have to be comprehensive. It must employ a range of weapons, including commercial policies designed to regulate monopolies and trading rings, price control policy, investment policies which change the nature of what is produced. It is futile to pick on any one cause and hope for success."

The Government and the PSA agree that harnessing inflation involves more than controlling prices.

This year's Budget called for a comprehensive policy to fight inflation. But nothing in the Budget was spelled out in enough detail to see just exactly what type of package the Government is committed to.

The solution to inflation will involve a fuller appreciation of the complexities of the causes of inflation than that discussed in the popularised economics of the PSA paper.



ANNUAL PRICE INCREASES FOR INDIVIDUAL CONSUMER ITEMS

Group	Percentage increase in price (June quarter '80 on June quarter '79)
Fuel and light	31.9
Tobacco and alcohol	27.5
Public transport	24.7
Private transport	23.1
Fruit and vegetables	21.4
Other foods	19.6
Footwear	18.8
Misc Supplies	18.4
Meat, fish, poultry	17.6
Household furnishing	14.4
Household services	13.9
Clothing	13.1
Housing	11.4
Total rise in consumer prices	17.9

O'Brien on business

O'Brien on business

Planning Council editing gets rid of the force and leaves readers to ponder on the task

PETER V O'BRIEN comments on the financial and business week, appraises the share market and analyses company accounts.

A FUNNY thing happened to the Planning Council Task Force's *Investment Issues* report on the way to the printer. Some controversial passages were removed in the process of editing the draft report, issued in April, and discussed in detail in *NBR* on April 28.

There is nothing unusual in a rewrite-merchant polishing a paper into shape before publication (it happens in this publication, the extent depending on the grumpiness level of our revered editor). The draft report was verbose, and difficult to read.

It is also normal practice to change a document if submissions are called on a draft, and experts then discuss matters of detail with the authors. The draft securities regulations are an example of that practice.

But the Task Force's report goes further than amendments to matters of technical detail. Sections have been deleted where there is no question of technicality.

When Planning Council chairman Sir Frank Holmes issued the draft, his accompanying letter said:

"The attached report on investment issues was prepared by a Task Force of the New Zealand Planning Council chaired by Dr Don Brash. The report will be published in May. It is being given limited circulation in this form because of its relevance to issues currently under consideration and to the realisation of the *Growth Opportunities* identified in the Government publication of that name. The report *stands on its own as a study of issues related to investment and growth.* It is also, like the forthcoming council reports on employment policy, regional planning and migration, an input to work on development strategy which the Planning Council will publish later this year". (*NBR* emphasis).

No talk there of substantial amendments beyond the scope of normal editing. No mention of people invited to make submissions.

And the letter makes nonsense of a disclaimer in the final document.

The Task Force comprised Brash, Holmes, Graeme Thompson, the council's chief economist, and Bill Smith, programming engineer of the Ministry of Works, who is a computer expert.

The report issued last week carried this pompous statement: "The authors were invited by the Planning Council to analyse investment issues for New Zealand as a contribution to the Council's thinking on development strategy. The report is thus the work of a task force rather than one formally endorsed by the council as a whole".

When will the council formally endorse something? Whose idea was it to *invite* Brash, Holmes et al. to do this analysis?

Does the disclaimer get the council as a statutory body off the hook if criticism is aroused because of the report's contents?

Is the lack of endorsement by the "council as a whole" related to the membership of that body, which includes a minister of the crown and the Secretary to the Treasury?

No doubt Holmes has some more of his stock of answers available to those questions. If he provides them, he might also answer why numerous passages were either deleted or amended into the innocuous passages which we now discuss.

On page 133 of the draft (page 84 of the final report) under the heading "Policies – Regulation and Control" the following appeared: "In addition, an independent assessment should be made of the role of State enterprises in all transport modes, including that of Air New Zealand and the Shipping Corporation in the provision of external transport services".

That recommendation is deleted in the published document.

The draft was highly critical of these corporations in other areas, but the criticism is either toned down or removed in the report.

Referring to Air New Zealand, the Task Force had tough things to say in the draft. On page 53, under "Tourism" it said: "The continued protection of Air New Zealand, even with an exchange rate adjustment, could well prejudice prospects for growth in the industry".

There is no mention of that in the final report.

Other references to protection in the same section are toned down to "if more tourists do come to New Zealand, the Government must decide whether a New Zealand or foreign carrier should provide the extra services".

In the section on "Transport", the draft has been rewritten, and there is no mention of the following: "At the very least, the benefits of continued membership of IATA should be publicly substantiated at an early stage".

"As with the railways, this (independent examination of Air New Zealand) is of central importance since it appears Air New Zealand is also overstaffed and burdened with deteriorating industrial relations".

Under "Shipping", the Task Force was dogmatic in the draft and wishy-washy in the final report:

The draft says: "The Shipping Corporation of New Zealand is a member of the conferences involved in New Zealand trade and in this context there is doubt as to the degree to which the large public investment ($116 million according to the 1979 annual report to Parliament) is serving the national interest. The Corporation is experiencing difficulty in generating a profit notwithstanding conference protection, and although it is claimed this situation should reverse in the longer term, a convincing case has yet to be made for continuation of conference membership *or even retention of the line.* (*NBR* emphasis). There is major undispelled concern that the Corporation's costs are tending to increase overall (conference) rates and that the investment in the line itself is involving a net long term drain on foreign exchange, both to the overall disadvantage of the economy".

Good, solid stuff. What a pity it fails to appear in the report, where we read these mild comments: "In this context (overall cost of shipping a product) it is important from time to time, to explore whether some modifications to conference arrangements are desirable in order to impart a greater element of competition in services and charges".

"As with other public enterprises in the transport sector, conflicts can arise between the need to operate commercially and profitably and the desire or obligation to serve wider interests. The Shipping Corporation would benefit from clear statements of government policy in regard to external shipping arrangement, and of objectives for the Corporation's involvement in existing trade and the development of new services. This would provide a better basis than now exists for planning by the Corporation and also for the evaluation of its present and potential contribution to national economic objectives".

Regarding those "conflicts", similar comments were made in *NBR* of June 30, when discussing the corporation's annual report. We did not prepare drafts over a period of months, issue them, and then come up with a glossy final report which watered down the original point.

The Railways section has been rewritten along similar lines. There is no need to detail the changed words; the statements on air and sea transport give the tenor of the transport section.

Part II of the report (Investment Strategy) has an interesting deletion when compared with the draft. This comment fails to appear:

"Recurrent high growth in the money supply, and the associated increases in prices and costs, including wage costs, demonstrate the problems of stabilisation policy. These are compounded by a taxation system badly in need of reform".

The next paragraph in the draft read: "None of these problems (with the possible exception of the tax system) is unique to New Zealand". The words in brackets are omitted from the report.

Under "Fiscal, monetary, and exchange rate policies", the draft said:

"Incentives to invest are at a minimum, except for replacement or the few highly attractive opportunities, generally with short pay-back periods". That is dropped from last week's publication.

The draft told us that "New Zealand's import licensing system is overdue for investigation". That sentence has been dropped in favour of a less dogmatic approach.

Several references to "cost-plus" pricing on the domestic market also died in the transition from draft to final report.

Does this mean that "cost-plus" dropped out of New Zealand's pricing system in three months, or has the Task Force some other reason for deleting the words?

The Task Force must have had second thoughts about comments in its section on "Investment Capital".

The draft said: "Indeed, the abolition of control on virtually all interest rates has probably done much more to protect investors than all the elaborate machinery established under the Securities Act in 1979".

That could be calculated to raise the blood pressure of various people, including Securities Commission chairman Colin Patterson, his colleagues, and those who have spent considerable time and money working on the several elements of the securities industry.

The new version is more polite: "It is hoped that the work of the Securities Commission will lead to further improvements in the information made available to lenders, and to greater protection against any dishonesty and sharp practice".

The Task Force had two alternatives for overcoming the effects of inflation on capital investment. The second option given in the draft was "to eliminate inflation".

At the time I discussed the draft in *NBR*, I thought that was a strange comment, because it verged on the impossible. The Task Force may have thought so too. It now says: "The second, and preferable alternative, is to reduce inflation greatly". A better sentence.

A similar new-found discretion comes through when the Task Force refers to the bonus issue tax of 17.5 per cent, if a bonus issue is made to shareholders from capitalisation of a company's revenue reserves.

The draft said this was "perhaps the silliest tax in New Zealand". The final version says it is "perhaps the least defensible tax in New Zealand".

The points raised here are relevant to the credibility of people who write Planning Council reports. If a statement is made that an independent assessment should be made of State transport corporations, it is obviously the authors *opinion*, based on their overall economic knowledge and examination of issues. It falls outside a technical matter which may be modified on the submissions of technical experts.

If leading economists think in April that "incentives to invest are at a minimum", why do they cut out the statement in July? Is someone opposed to that view?

In April we had "cost-plus" pricing throughout the economy. By July it seems such references are unnecessary in many sections. Why?

The final report is shot through with "mays", while the draft in many places said "is". Why the sudden qualifications to previous straightforward statements?

The draft shows that the Task Force took on a task and applied itself with force. The final report relates to the task, but dropped much of the force.

Analysing accounts: Healing Industries

HEALING Industries Ltd's finances are very strong, according to the 1980 annual report. The Auckland based bicycle, paint and electroplating equipment manufacturer invested a net $5.2 million in the business in the 12 months to March 1980 (after allowance for conversion of convertible debentures to ordinary shares). Only $250,000 was borrowed from outside sources.

The group reinvested $3,116,301 from net profit, and $298,145 in depreciation, making $3,414,446 from operations. A cash issue of shares raised $1,730,175. A mortgage provided the remaining $250,000.

The relationship of cash flow (net profit plus depreciation) to total assets consequently jumped from 1979's 12.82 per cent to a massive 21.3 per cent.

Many companies have yet to publish their annual reports for 1979-80, but it will be surprising if more than a handful improve on the Healing percentage.

A profit increase of 189 per cent, and the proceeds from cash issues, allowed the company to improve working capital by $2.7 million, and provide a $6.8 million margin between current assets and current liabilities, compared with $4 million in the previous year.

The "current ratio" (current assets to current liabilities) is struck at 5pm on a given day, and can therefore be misleading. Analysis of the dollar movement in Healing's accounts suggests that the company may have invested heavily in raw materials (up $1.4 million from $1.5 million in 1979) to meet expected demand for its products, particularly bicycles, and possibly to buy in goods against inflationary movements.

We say "may" and "possibly", because the report gives no explanation of the raw materials buildup, which can be compared with a movement of only $412,000 in the value of finished goods which closed the year at $3.5 million.

The only clue to the increase in raw materials value is in a section of the directors report: "The energy crisis and the high cost of fuel, together with new technological developments have created a demand for cycles never known in the history of the industry. Our group is now playing a very important role in the fields of transportation, recreation and energy conservation. Considerable resources have been invested in plant, land and buildings enabling the group to meet increased consumer demands."

The report is reasonably informative in other respects, although information on expenses would be welcome. Sales increased 53.6 per cent to $28.8 million, pre-tax profit was 214 per cent higher at $5,242,187.

A comparison of pre-tax profit gives a better indication of the company's performance than the net figure, due to the distortion of export tax incentives.

It would be interesting to see a summary of expenses, apart from the statutory requirements and the Accountants' Society guidelines, in view of the relationship between increase in sales and pre-tax profit.

Taxation was 40.6 per cent of pre-tax profit in 1979-80, compared with 34.9 per cent for the previous accounting period. Export incentives and investment allowance was only $12,500 higher at $580,021, so the company's main growth in the last 12 months seems to relate to sales within New Zealand.

The directors report says there was little or no lessening in demand for "high quality Healing paint products", and "increased spending on high cost maintenance free type products has assisted in the growth of the company's specialised industrial type coating". That growth, plus the obvious substantial rise in demand for bicycles, would push up the proportion of local sales to total revenue.

Healing's performance in all the standard financial ratios is at the top level. The ordinary dividend, after allowance for a payment on specified preference shares, is covered 5.5 times although the year-end capital is considerably higher. The dividend is raised from 17.5 per cent to 20 per cent. (We have assumed a full dividend payment on balance date capital, but the shares issued on conversion of the debentures do not participate in the final payment for 1979-80).

Earnings per share on year-end ordinary capital, after deduction of the specified preference dividend, are 55.33 cents. The present price/earnings multiple for the company's ordinary shares is 4.73 cum a one for 10 proposed bonus issue, based on last week's price of $2.62 per 50 cents share.

The company earned a mere 32.7 per cent on shareholders funds, as against 22.7 per cent in 1979, the latter figure being an excellent result at the time. The proprietorship ratio (shareholders funds to total assets) went from 46.8 per cent to 59.4 per cent, while net asset backing is now $1.62 per 50 cents share, compared with $1.36 at March 31, 1979.

Healing is one of the few listed companies with a healthy margin between the share price and asset backing. A premium of $1 from a base asset backing of $1.62 (61.7 per cent) is unusual in the present market, and is a reflection of group performance and investors' assessment of the company.

The investors followed up their assessment last year, when the number of shareholders went from 716 to 1121.

Healing gained 596 new shareholders in 1979-80. The discrepancy between the 405 increase in total shareholders and the 596 new shareholders comes from investors who sold out, probably at a good profit in view of the rapid increase in shareprice over the year.

O'Brien on business

Wellington buildings boom as industry stagnates

THE nationwide construction industry is stagnant, but central Wellington enjoys a boom estimated at more than $200 million for high rise buildings either planned or under construction.

Cranes dominate the Wellington skyline, and the citizens absorb the sound of demolition drills and steel balls crashing through old buildings. Their lungs absorb the dust which is an inescapable by-product of the boom.

Within a half-mile radius of the proposed new GPO in Featherston Street (the heart of New Zealand's financial administration, irrespective of what Aucklanders may claim for their industrial-based metropolis) about 30 high rise projects are underway, or being prepared for construction. Featherston Street has five.

The daddy of them (perhaps the Godfather?) is the rusting Bank of New Zealand, whose steel superstructure is becoming as much a Wellington landmark as the Beehive or the harbour. Just down the street from the BNZ the Australia and New Zealand Banking Group is erecting its new head office on a massive triangular corner site.

Local betting is that the ANZ, currently a hole in the ground, could be finished before the Bank of New Zealand, but the BNZ is supposed to be on its target of end-1982.

A large number of projects are the result of the quiet period in the 1970s when the major institutions deferred plans for new buildings following the severe recession, and the tightening of finance.

Now it is all go. Areas of the central city which were considered unfashionable a few years ago are seeing high rise developments, particularly in the old warehouse section which backs on to the Bank of New Zealand's site.

Some years ago a property man by the name of Jones (also known as author, inveterate letter-writer, part-time journalist, jet-setter, boxing expert, art collector, political analyst, gardener, lawn-cutter, ballet developer, and Phantom-fan) built Robert Jones House across the road from the harbour.

Those without the ability to see further than the next six months said he had at last flipped his lid when he sited the building among run-down warehouses, and charged what was then a fancy rent for the space.

Jones' edifice is now far from lonely, as high rise buildings crowd in on all sides, with the classy names of the Norwich Union, BP Superannuation Fund and others, while the new $14 million (that was the last figure) Town Hall is a few yards down the street. The lad's capital appreciation must look pleasing in the books.

Institutions dominate Wellington construction but other large organisations, apart from insurance companies and banks, are also in the building boom.

Lambton Quay is undergoing its most radical change for at least 50 years. A new block for the Public Trust, demolition of the State Fire Building close by, a Challenge Corporation project a little further south (which involved the demolition of four separate buildings), four new developments by the cable car (including extensions to the James Cook hotel) and the ANZ bank which comes into the Quay, add to the comparatively recent completions of Pastoral House (home of various agricultural-linked organisations) and other blocks adjacent to the Government Centre.

Another version of redevelopment for the substantial Gresham Hotel site opposite the DIC department store is coming before the city council town planning committee. It will add to the changing western side of the Quay.

Ancient buildings in Willis Street are making way for modern structures on five sites, including the now closed Grand Hotel, a famous watering hole of yesteryear.

The westward shift of Wellington's commercial district on to the Terrace was the main development in the city in the 1970s. The area is participating in the current boom as buildings rise on the few remaining sites outside the residential district, which is at the southern end of The Terrace.

Further to the north the Government's building programme has yet to stop. The National Library building planned for a full city block should be off the re-drawing boards soon, when the design change from structural steel to reinforced concrete is completed (a similar change to the full-block GPO in Featherston Street is completed, and the second stage of the building is out to tender).

And the city has its plans for hotel projects, which have become notorious for their delays.

Their completion times are further away, with one still being submitted to potential financiers. They will add activity in the construction industry.

Auckland had most of its major central city construction in the latter part of the 1970s apart from Government work in Wellington.

As the 1980s start, the emphasis has shifted to the capital, with mixed feeling among the inhabitants as some fine examples of period architecture are smashed into rubble. But efficient use of space, maintenance costs, earthquake risks and other factors are given as justification.

Stock Exchange weekly review

FOR WEEK FRIDAY JULY 11 TO THURSDAY JULY 17

	Last sale	Week's high	Week's low	Turnover
AIRWORK,50C	117	...	...	0
7.5% PR	...	...	...	0
6% PR	...	...	...	0
AJAX G.K.N.	285	285	285	200
A.J.WHITE	100	...	...	0
11.5% CONV PR	...	...	...	0
ALCAN,50C	70	70	70	100
A.H.I.	215	220	214	244500
ALLIANCE,50C	47	50	47	4700
12% CONV PR	42	45	42	600
ALLFLEX	115	118	114	10600
ALLIED FARMERS	285	285	280	4200
12% CONV PR	275	275	275	300
ALLOY STEEL	200	...	...	0
A.M.DISLEY, 50C	200	200	200	4000
AMPOL PET.,50C	175	180	175	800
A.BEAVEN	109	109	108	12800
11% CONV NTS	95	95	95	3200
11.5% CONV PR	90	90	90	600
AMDAS GROUP	108	110	108	1600
5-6.5% PR	90	...	...	0
12% CONV PR	90	...	...	0
ANZ BANKING GROUP	219	220	217	25100
A.WRIGHT	230	230	230	200
"A" 6-7.5% PR	...	...	...	0
"B" 5-6% PR	...	...	...	0
A.BARNETT	185	185	185	700
A.ELLIS	60	60	60	300
ARTHUR YATES	340	340	340	5900
12% CONV PR	130	130	130	600
ASHBY BERGH	225	225	225	300
A.B.CABLES	200	200	200	100
ATLAS, 50C	37	39	37	1700
10% CONV PR	30	30	30	9700
AUCK.GAS	510	510	510	6700
AURORA,50C	145	145	143	16200
10% CONV PR	220	220	220	200
14% CONV NTS	100	100	100	600
CONV NTS '84	102	102	102	300
A.C.I.	198	...	...	0
AUTOCRAT HOLDS	170	175	170	800
BAILLIE,50C	65	65	65	3700
BALLINS,50C	70	72	70	43800
11% CONV PR	65	65	65	5400
BANK NSW	380	380	360	600
BEACH PETR.,50C	225	...	...	0
BING HARRIS, 50C	71	72	70	6800
B.N.Z. FINANCE	240	240	235	1200
BRAMBLES BURNETT,50C	68	...	...	0
BRIDGEVALE,50C	55	...	...	0
BRIERLEY, 50C	307	308	300	16300
12.5% SPEC PR	...	...	...	0
BOS, 50C	55	55	55	2000
B.H.P., 200C	1930	1930	1900	7147
BROTHER, 50C	70	...	...	0
BUNTING,50C	70	70	70	17400
BURKES CAT.,50C	152	...	...	0
C.P.D.	195	195	193	23500
7-9% "A" PR	...	...	...	0
5% "B" PR	...	...	...	0
10% CONV PR	170	170	170	[illegible]
C.F.C.A.	217	217	217	[illegible]
11% CONV PR	170	170	170	100
C.F.M.	202	202	203	2900
12% CONV PR	140	140	140	300
CANT.FLOUR	220	...	...	0
CANT.TIMBER	315	315	315	10000
12% CONV DEB	275	290	275	3000
CAPITAL RADIO,50C	365	285	365	100
CAPITAL LIFE,50C	72	72	72	600
CARBONIC ICE	270	...	...	0
CARTER HOLT	420	425	420	1100
CERAMCO	220	220	216	55200
12% CONV PR	100	103	100	700
CHALLENGE	255	255	245	40700
CHENERY	140	140	140	1900
CH'CH.GAS	160	160	160	7600
CH'CH PRESS	275	275	275	300
CITY REALTIES,10C	35	35	34	32000
CLYDE ENG.	100	100	100	500
12% CONV PR	92	92	92	600
COLLINGWOOD,50C	40	40	40	1000
13% CONV PR	36	...	...	0
COL.MOTOR	187	...	...	0
COLYER WATSON	97	97	97	3500
COMALCO,50C	640	...	...	0
COMMAND	140	140	140	900
COM.BANK AUST	320	...	...	0
COM.METAL,50C	166	170	169	2400
CON.SILVER,4C	10	11	10	17300
COOKS WINE	150	165	150	11500
CORY-WRIGHT	110	112	110	3000
12% CONV PR	85	85	85	200
CROWN CONSOLIDATED	198	198	195	16000
11% CONV PR	180	180	178	3000
C.B.G	975	...	...	0
CYCLONE,50C	195	195	195	1500
DALGETY(N.Z)	218	220	218	16500
DALHOFF & KING,50C	58	58	56	3450
DEANES	135	135	135	700
D.I.C	150	150	150	1300
12% CONV PR	125	125	125	250
DINGWALL & PAULGER	180	...	...	0
D.MCL WALLACE,50C	118	118	115	9400
12% CONV NTS '79	...	...	...	0
11% NTS '82	120	...	...	0
8% CONV NTS	95	...	...	0
D.T.P.A	68	...	...	0
DOM.BREW.,50C	80	87	78	46300
11% CONV PR	48	48	48	200
DONAGHY'S	315	320	315	1700
12% CONV PR	325	325	325	300
D.R.G.,50C	90	95	90	2000
DUNLOP (NZ)	340	340	335	6000
4.5% PR	45	45	45	100
EBBETT	110	110	110	500
EMOS,50C	95	95	94	8500
E L'STEIN,50C	180	180	180	2500
EMPEROR MINES,10C	295	295	295	600
ENDEAVOUR	142	143	142	3600
E.ADAMS	170	170	170	400
F.T.C.,50C	105	105	102	15000
11% CONV PR	75	77	74	4600
F.WAIMAK,50C	66	...	...	0
FELTEX,50C	115	115	114	152600
5% PR	41	41	41	500
FIRESTONE NZ	115	115	115	9500
FISHER & PAYKEL	212	212	210	9200
FLETCHER	346	347	325	389400
15% CONV PR	106	106	104	181300
FOUNTAIN CORP	125	125	125	16000
FREIGHTWAYS, 50C	135	135	130	18700
10% CONV PR	80	80	80	200
GEAR	70	70	70	4800
11.5% CONV PR	80	...	...	0
GEN.FINANCE	200	...	...	0
G.COURT	120	120	120	2600
G.J.COLES,50C	207	...	...	0
GOLDEN BAY,50C	50	51	50	42400
GOODMAN GROUP	245	265	243	6800
14% CONV PR	186	...	...	0
GROSVENOR PROPS, 25C	50	...	...	0
HALLENSTEIN	230	230	230	700
HARLEY	165	...	...	0
HAURAKI ENTERPRISES,25C	210	210	210	700
HAWKINS,50C	52	52	49	30900
6.5% PR	...	...	...	0
H.B. FARMERS	200	200	200	1300
13% CONV PR	140	140	140	1000
HEALING	270	270	262	13100
10% DEB	...	...	...	0
12% CONV PR	2100	...	...	0
H.POLLARD	340	355	335	11000
10% CONV PR	220	...	...	0
HENRY BERRY,50C	155	155	155	1500
10% DEBS	235	...	...	0
HOOKER,50C	73	...	...	0
HUME INDUSTRIES	118	118	118	100
5-7.5% PT PR	45	...	...	0
10% CONV DEBS	117	...	...	0
I.C.I.(AUST)	155	...	...	0
I.C.I.(NZ)	194	200	194	2400
IND BROADCASTING	140	...	...	0
INDEPENDENT NEWS	145	145	145	8600
IND.CHEM,50C	200	200	200	1100
INTERTASMAN NZ,50C	...	...	...	0
I.W.DOW,50C	210	210	205	4400
JAMES AVIATION	210	10	210	100
JAMES SMITH 50C	90	90	90	200
14% CONV PR	60	..	...	0
J.E. WATSON	260	..	...	0
12% CONV PR	225	...	...	0
J.BURNS	175	175	175	1600
12% CONV PR	150	...	...	0
JOHN EDMOND	200	...	...	0
J.WEBSTER 50C	47	47	47	1000
12% CONV PR	40	40	40	200
J.MERCER INDS., 200C	...	...	...	0
5.25-6.75% PR	...	...	...	0
J.NATHAN	125	...	...	0
6.5% PR	125	...	...	0
11% CONV DEBS	125	...	...	0
J.RATTRAY	190	190	190	400
12.5% CONV PR	135	135	132	9100
KEARNS-OATINA, 200C	210	...	...	0
L.W.RUDKIN,50C	108	110	105	39900
12% CONV PR	85	85	80	500
LANES,50C	44	44	44	2400
L.D.NATHAN	180	185	180	9100
9.5% CONV DEBS	185	...	...	0
LEYLAND,50C	105	105	105	100
LION, 50C	93	93	90	[illegible]
10% CONV PR	77	77	77	5900
12% CONV PR	68	72	68	5400
L.&P.OIL,50C	26	30	26	10600
LUSTEROID	425	...	...	0
MAINZEAL CORP,50C	95	95	95	1000
MAIR,50C	175	175	172	1500
11% CONV PR	150	...	...	0
MANAWATU,50C	125	...	...	0
MANTHEL	170	...	...	0
MARAC	248	248	245	7000
MCALPINE,50C	79	...	...	0
MCKECHNIE	198	198	192	1100
MIDLAND	165	165	165	[illegible]
11% CONV PR	130	130	130	[illegible]
MIN.RESOURCES,20C	55	[illegible]	55	[illegible]
M.O'BRIEN,50C	[illegible]	[illegible]	[illegible]	[illegible]
12% CONV PR	[illegible]	...	...	[illegible]
FONTANA,50C	147	147	146	17500
M-P.I.M.	175	175	175	1200
11% CONV NTS	140	...	...	0
MOSGIEL	10	12	4	74900
13% CONV PR	10	10	5	53100
MOTOR HOLDS.,50C	140	140	130	33100
12.5% PR	...	...	...	0
MOTOR TRAD.,50C	58	59	55	4400
5-5% PR	46	...	...	0
11.5% CONV PR	50	50	50	4700
MSI CORPN,50C	106	110	106	10200
12% CONV PR	112	112	112	300
MT.COOK	160	160	154	10900
M.I.M.HOLDS.,50C	585	...	...	0
NAT.INSCE, 50C	215	215	210	26300
NATIONAL TRADING	...	...	...	0
8% PR	...	...	...	0
NAYLOR	100	...	...	0
5% PR	...	...	...	0
NEIL HOLDINGS, 50C	35	37	35	21700
N.Z.CEMENT	100	102	100	7700
N.Z.F.C.,50C	85	85	85	18700
11% CONV PR	75	75	75	300
N.Z.FARM FERT.	161	161	160	9800
12% CONV PR	135	137	132	4100
14% CONV PR	137	...	...	0
N.Z.F.P.	350	356	352	59900
N.Z.I.G.	360	360	350	7900
5.5% PR	160	...	...	0
N.Z.I.	295	295	290	[illegible]
10% CONV PR	160	160	158	18300
N.Z.LAND,50C	20	20	20	400
N.Z.LEATHERS	65	65	65	2500
N.Z.MOTOR BODIES	100	100	100	10300
N.Z.M.C	146	146	145	23400
N.Z.NEWS	202	204	202	26300
N.Z.PETROL,50C	140	140	130	1600
N.Z.REFINING	95	95	95	11100
N.Z.STEEL	200	220	190	55300
N.Z.UNITED	525	...	...	0
NIVEN INDUSTRIES	105	...	...	0
NUHAKA	125	125	120	700
ODLINS, 50C	80	80	76	35130
"A" 6% PR	20	...	...	0
12.5% CONV PR	55	55	55	14000
"B" 13% CONV PR	60	62	58	10800
OPTICAL HOLDINGS, 50C	55	55	55	1000
12% CONV PR	48	...	...	0
OTAGO PRESS & PROD	115	115	115	1600
PAYROC HOLDINGS	105	...	...	0
P.D.L.HOLDS,50C	120	120	120	500
PERM.INVEST	75	...	...	0
PHILLIPPS & IMPEY,50C	115	115	115	5300
PRESTIGE,50C	80	80	78	3700
PRINT & PACKAGING	180	180	178	16900
11.5% CONV PR	145	145	145	2400
PROGRESSIVE	490	490	480	14350
12% CONV PR	780	780	780	50
PROP.SECURITIES,50C	157	157	155	1300
PRUD.BUILDING	100	...	...	0
QUILL MORRIS,50C	110	...	...	0
12% CONV PR	75	...	...	0
RADIO AVON, 50C	162	162	162	100
RADIO OTAGO	130	135	130	12500
REGINA	100	...	...	0
R & W HELLABY	162	162	162	5900
REID FARMERS	250	250	250	2800
REPCO(NZ),50C	96	96	96	2600
10% CONV DEBS	105	105	105	200
REVERTEX	270	270	270	500
REX CONSOL.	235	235	235	1500
RHEEM,50C	170	175	170	800
RICKSTAN,50C	242	...	...	0
ROTHMANS,50C	118	119	117	20300
R.W.SAUNDERS	310	310	310	400
SALMOND	195	195	190	1700
SANFORD	290	290	290	100
PR	...	...	...	0
12% CONV PR	240	...	...	0
12% "B" CONV PR	...	...	...	0
SCHOFIELD	120	120	120	5400
SCOTT,50C	62	62	62	9200
12.5% CONV PR	48	...	...	0
SELBY	200	...	...	0
SKELLERUP,50C	300	300	295	800
5-7.5% PR	35	...	...	0
SMITH & BROWN MAPLE, 50C	190	...	...	0
SMITH BIOLAB,50C	175	175	175	5500
12% CONV PR	135	...	...	0
SMITHS C.M.	130	130	130	2100
STH. BRITISH	295	295	285	36000
STHN. CROSS HOTEL	117	117	117	800
STHN CROSS MINS.,20C	18	18	18	2000
S.F.M.	218	218	212	22200
SPEDDING, 50C	55	55	55	2300
12% CONV PR	70	70	70	300
STEEL & TUBE, 50C	103	105	103	12000
SUCKLING	150	...	...	0
TASMAN, 50C	360	360	342	14200
RED PR	...	...	...	0
PART PR	...	...	...	0
TAYLORS	118	...	...	0
12% CONV PR	112	112	112	500
TELTHERM	185	185	185	1600
12% CONV PR	140	...	...	0
T J EDMONDS	370	370	370	400
TOLLEY	110	110	106	4500
TOUR FIJI	55	...	...	0
TRANS ASHBURTON, 50C	46	46	46	200
TNL GROUP, 50C	75	75	75	29900
10% CONV PR	60	60	60	2600
12% CONV PR	62	62	62	1400
TRANS (NTH. CANT.)	100	100	100	700
13.5% CONV PR	100	...	...	0
TRANSVISION	190	200	190	35400
U.D.C.	147	...	...	0
U.E.B.,50C	102	120	102	22500
6.5-7.5% PR	...	...	...	0
12% CONV PR	90	110	90	2100
15% CONV PR	57	58	57	17400
UNITED STEAM SHIP	80	...	...	0
5.5% PR	82	...	...	0
UNITED PLOG	105	...	...	0
UNITED PUBLISHING,50C	185	185	185	2400
VACATION,50C	65	65	65	1300
12% CONV PR	52	52	52	1000
12.5% CONV PR	50	...	...	0
WAITAKI-NZR	167	175	167	28900
11.5% CONV PR	138	138	136	1900
12% DEBS	165	165	165	[illegible]
WALKER & HALL	390	...	...	0
WATTIE,50C	115	115	112	[illegible]
12.5% CONV PR	70	70	70	[illegible]
WELGAS	465	465	465	100
WILKINS & DAVIES	200	200	195	1000
5.75-7.5% PR	50	...	...	0
W.JEFFERY	136	136	136	500
12% CONV PR	105	105	105	800
WILSON & HORTON	355	355	355	1700
WILSON DISTILLERS	95	95	95	[illegible]
WILSON NEILL	300	[illegible]	[illegible]	600
12% CONV PR	[illegible]	...	...	[illegible]
WINSTONE,50C	[illegible]	[illegible]	[illegible]	[illegible]
12% CONV PR	57	57	[illegible]	[illegible]
W'MTN (NZ) PROPS	[illegible]	...	...	[illegible]
5.75% PR	[illegible]	...	...	[illegible]
WORMALD	280	285	280	[illegible]
5-7.5% PR	100	...	...	0
W.R.CARPENTER,50C	216	...	...	0
W.SUTHERLAND,	137	...	...	0

Caltex deal seals oil industry roading domination

THE domination of New Zealand's highly competitive road sealing business by oil companies has moved closer.

Caltex has broken with its past policy of avoiding direct involvement in roading companies and has bought a substantial minority shareholding in Auckland contractor Farmer Construction Ltd.

Now, all four oil companies trading in New Zealand have equity holdings in road construction firms and their involvement is expected to increase in future.

For more than a decade BP has been involved through its wholly-owned subsidiary, Road Developments Ltd; Mobil has a controlling interest in Emoleum (NZ) Ltd; and Shell, which annually supplies more than 40 per cent of the bitumen spread on our roads, has minority stakes in both Waikato Bitumen Ltd and Reliable Roads Ltd.

The companies all operate in the Auckland-Waikato district, the country's largest market and scene of some of the most intensive competition during the turmoil of the construction season just passed.

All, except Reliable Roads Ltd, which specialises in asphalt rather than chip sealing work, were involved in the remarkable competition for the Whangarei county's resealing business. The engineer's estimate for the job was $77,000, two independent contractors submitted prices around $75,000, while RDL, Emoleum and Waikato all said they could do the job for less than $50,000.

Also in the North Island last year, work in the Hamilton district was being done for an average 70 per cent of the Ministry of Works and Development's estimate, and there were 25 per cent savings on all sealing contracts, estimated to be worth more than $100,000.

Events were even more dramatic in Christchurch, where RDL arrived at the start of the season. The resulting competition involved two public listed companies, Farrier Waimak Ltd and Pavroc Ltd, and both lost substantial amounts of work. Estimates vary, but it seems that in that first season RDL did up to 50 per cent of the chip sealing work in Canterbury.

The tight, almost vicious, competition affected all parts of the country except the far north, Otago, Southland, and the West Coast. It was held to be a major contributor to the underspending of the National Roads Board 1980-81 budget by $9 million.

Caltex's move had been awaited since last November when its largest bitumen client, Winstone Civil Construction Ltd, was sold to RDL. Farmer Construction Ltd, in turn, had bought asphalt from Winstone Civil for use on its own roading and site development contracts.

As a direct result of the Caltex deal, Farmer is purchasing a new bitumen tanker and spraying equipment to handle chip sealing work and is in the process of installing the most modern turbulent mass asphalt plant in the country.

With the general level of pricing in the Auckland district tending to indicate that that district is already well served with bitumen processing and spreading equipment, this latest development is undoubtedly going to attract considerable interest from the other contractors in the area.

Most contractors interpret the move as part of a developing trend that will see New Zealand's road sealing industry — like its Australian counterpart — placed in the hands of the oil companies before long.

Helping this trend is the present prolonged recession, that has accelerated the decline in fortunes of road contracting companies that began in the early 1970s. Many small companies have gone out of business and larger operations have all retrenched substantially.

Oil companies have often provided their clients with debenture finance and their bitumen bills are the largest item in the accounts of road sealing contractors.

As profitability goes, they can find themselves in charge of a contracting business almost by default; it was in this manner that BP originally acquired Road Developments Ltd.

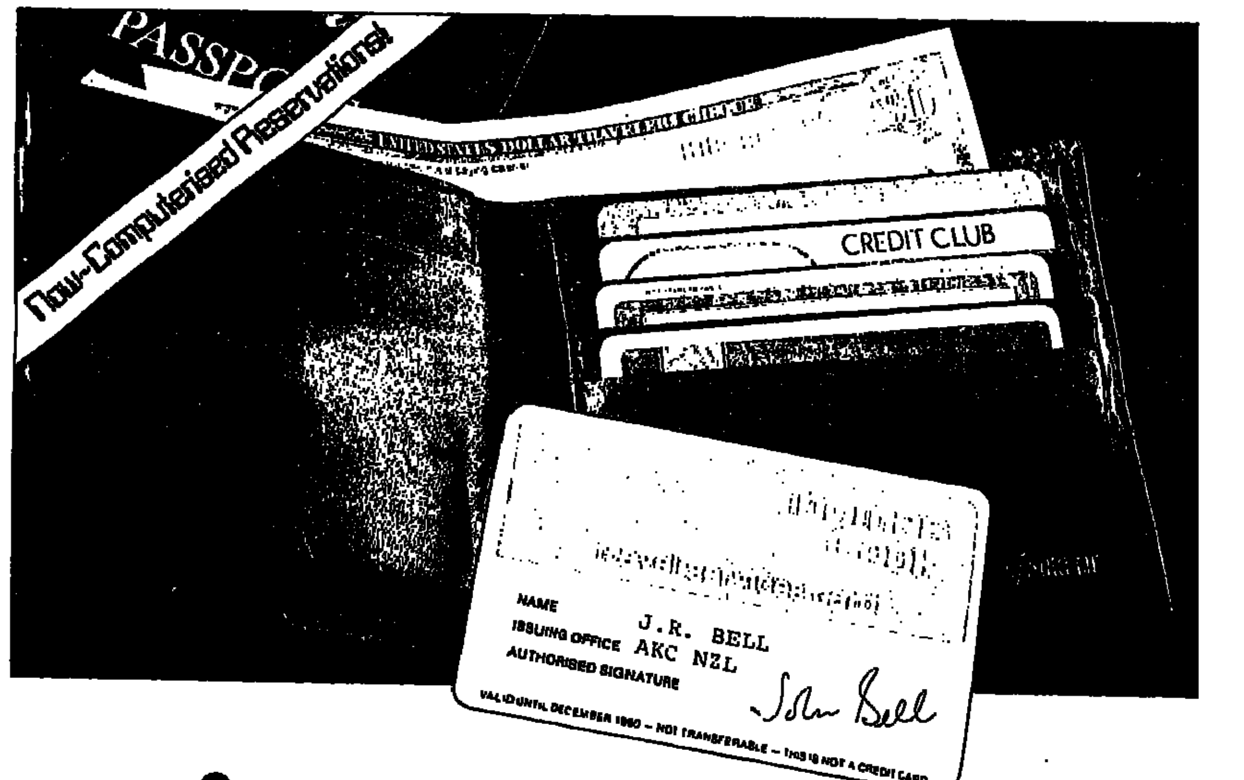
Bitumen's market share also appears to be an important item in oil industry calculations, although the companies themselves deny this, saying that the market really is too small to be terribly worried about.

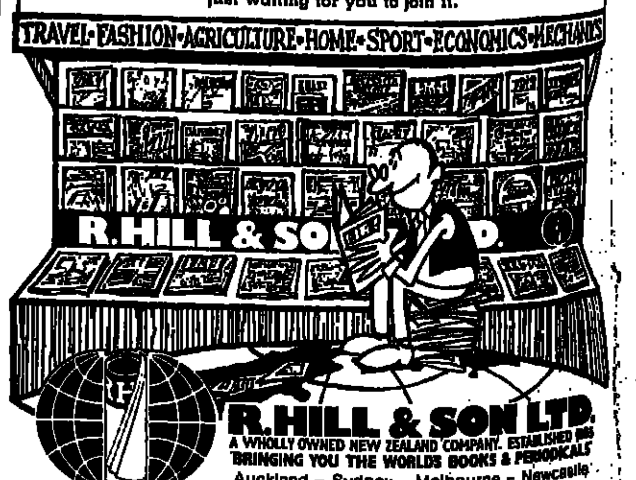
In theory, an oil company can supply the Marsden Point refinery with a feedstock that will produce a product mix to meet his various market requirements.

But as supply difficulties have restricted the choice of sources from which companies can draw their supplies, it appears that the heavier crudes now being used are leaving a larger bitumen fraction to be disposed of.

Contractors are at the moment tendering on next season's National Roads Board and local authority sealing contracts and it is expected the prices will be restored to something like 1978-79 levels at least. But it is unlikely that the competition will have [illegible] during the winter.

Another unknown had already been dropped into the equation — the companies have been unable to agree on a new price for bitumen. It is usually announced by early July, and there is speculation that this season they will decide to go their own way on the issue.





Trade bans prove to be a costly conscience gesture

by John Draper

TRADE bans seem to hurt those who impose them most.

The Federation of Labour's trade ban on Chile has handed a $20 million plus dairy products market to the European Economic Community.

United States President Jimmy Carter's grain embargo against the Soviet Union for the invasion of Afghanistan is supposedly cutting American exports by $2.6 billion and costing the Administration $4 billion.

The European Economic Community is hardly paying lip service to the Soviet ban, which is also supposed to include high technology. Argentina, a major grain exporter, has chosen to ignore it altogether.

Carter's call for a trade embargo against Ayatollah Khomeini's Islamic Government in Iran has been similarly ignored by the Europeans, who are only banning completely new trade, while allowing businessmen to expand existing contracts.

And then there were the British Government's sanctions against Ian Smith's regime in Rhodesia, given the weight of the United Nations support, but breached by the state-owned oil mogul, BP, and its partially British-owned sister Shell.

The *London Financial Times* reported that the lifting of sanctions last year would make very little impact on the Zimbabwean economy. Sanctions had fast been eroded, particularly in the 12 months leading up to the Lancaster House settlement, it said.

When Ian Smith declared UDI in 1965, Britain was Rhodesia's largest trading partner with a 25 per cent share of overall trade.

According to the *Financial Times*, since 1965 Zimbabwe Rhodesian imports have more than doubled, but Britain has not shared in that growth.

"It is accepted that the British will get some of their market back but nothing like the 25 per cent total stake enjoyed in 1965," the paper said.

America has had similar problems with the grain embargo against the Soviet Union.

Carter is stopping the sale of $2.6 billion worth of corn, wheat and soya beans to the Soviet bloc, a decision that could cost the United States taxpayer more than $4 billion by the time exporters have been compensated, storage fees, farmer support programmes, gasahol options and special aid are taken into account.

But the Soviet Union is likely to go without only 20 per cent the grain it needs for feeding livestock and to make up its own harvest shortfalls.

Argentina has increased sales, getting the benefit of higher prices — up 20 per cent. Canada and Australia have only agreed not to add to existing contracts.

However, sales of Australian and French grains have been made through third countries acting as agents, particularly the Eastern European nations.

A ban on high technology sales is being supported by some European nations plus Japan, though West Germany is a noteable exception.

British Foreign Secretary Lord Carrington said recently that the Government had tightened the "rules" on the sale of technology and "as a result a lot of high technology equipment which would have gone to the Soviet Union has not gone," he said.

But since the restrictions were announced, British exports to Russia have increased dramatically.

"The recent figures reflects contracts entered into before the Soviet invasion of Afghanistan, but I do not see much point in taking action which is going to damage you more than the Russians," Carrington said.

It is a sentiment shared by the other European nations, who are owed in excess of $23 billion by East Europe and the Soviet Union.

West Germany is substantially dependent on the Soviet Union, the supplier of 15 per cent of its natural gas and 40 per cent of enriched uranium, and is therefore reluctant to take any action that might jeopardise trade or make the Eastern bloc reluctant to pay its debts.

Britain is even less enthusiastic on sanctions against Iran to support America's demands for the release of 50 hostages.

South Africa has long been aware of possible sanctions against its trade and the Wellington Harbour Board Employees Union's consideration of a ban last week was just the latest.

As such, a trade ban by New Zealand would have little impact on either nation. New Zealand exports $6 million worth of goods and buys $10 million, though last year there was an exceptional purchase of refined petroleum products by Mobil which boosted the figures.

South Africa is understood to have well prepared contingency plans should the world's major trading nations ever decide to implement a trade boycott. That possibility now seems remote as South Africa's importance to western security grows.

New Zealand alone is imposing a ban on trade with Chile, though it is no more than a token gesture unable to prevent imports of Chilean wine and unable to stop exports of skills, seeds agricultural machinery and animal semen.

Only the Dairy Board is effectively barred from exporting to Chile, though it is understood it has costed the possibility of transhipping in Panama to avoid the ban enforced by the Federation of Labour.

Chile is importing $14 million of butter, more than double the amount in 1978, cheese $2.5 million up 70 per cent and milk powder, $15 million up 26 per cent.

The European Economic Community is now the major supplier of all three products. The Dairy Board's Chilean agent told *NBR* recently that the board was most unlikely to cut into the butter market should the trade ban be lifted. But it ought to be able to effectively compete for a share of the milk powder contracts.

Few Chileans, including those working in the Ministry of Foreign Affairs, are aware that New Zealand trade unions still impose a trade ban.

Constitution drafted for grandiose tax haven

by David Robie

EMERGING from the so-called Vemarana Federation secession based on Espiritu Santo, largest of the 80 sprawling islands in the Anglo-French condominium of the New Hebrides, is a grandiose tax-haven venture. A group of meddling American and French businessmen hope that it will become a magnet for international investment.

The blueprint, outlined in the constitution, was actually drafted thousands of kilometres away – in a real estate office near the American Nevada state Capitol building.

The document is a triumph for American real estate developer Michael Oliver, 51, who has been involved in attempts to set up a free enterprise, anti-bureaucratic state in Tonga and the Bahamas.

At least, it will be, if the month-old breakaway led by Nagriamel Party leader Jimmy Moses Stevens survives.

For the government of Chief Minister Father Walter Lini, whose English-speaking Vanuaaku Party was swept to power in a landslide election victory last November, it is grotesque.

Lini's administration, steering the New Hebrides to independence on July 30 in defiance of British and particularly French pussyfooting, sees the Vemarana breakaway as an attempt to sabotage an emerging nation before it has reached first base.

"I've been working with Jimmy Stevens, leader of the New Hebrides free enterprise independence movement, for 10 years," Oliver says. (Stevens would hardly be flattered with the description of his largely French-speaking party as a pawn).

"Stevens and leaders of his group have flown back and forth from the New Hebrides to Carson City many times in recent years as we formulate plans, and as I advised them on what steps to take."

According to Government sources, Europeans in Vila received brochures offering "an investment in the Vemarana Federation" on May 28 – the day independence was proclaimed by Nagriamel on Santo.

The brochures outlined two parallel investment plans, one for $10 million and the other for $2 million if insufficient funds were raised to meet the first scheme.

Three American directors were named for the Vemarana corporation, charged with realising the plans. Besides Oliver, who founded the Phoenix Foundation in 1975 to encourage free enterprise against socialism or communism in emerging nations, were Tom Eck, a Carson City lawyer who helped draft the constitution, and Dr John Hospers, 59, a philosophy professor at the University of Southern California and the first American Libertarian Party presidential candidate in 1972.

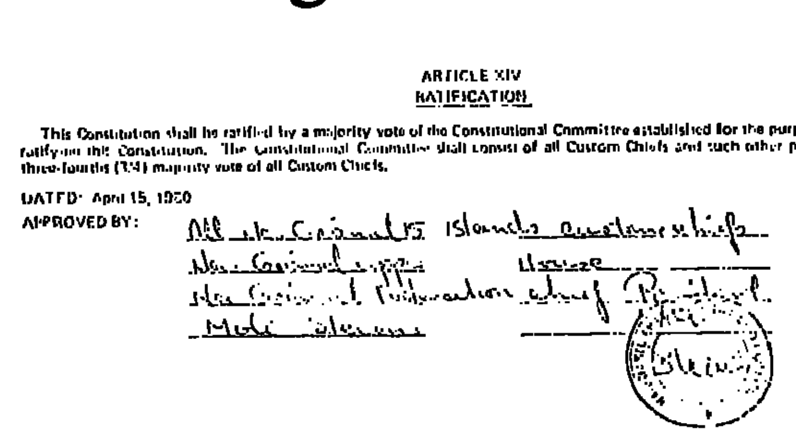
According to its preamble, the constitution's purpose is "not to establish a government that plans, controls or regulates the lives of its citizens, but rather to produce the smallest government required to ensure a peaceful framework in which citizens have maximum control over their own lives." (A five-man cabinet is provided for – prime minister, foreign minister, external and internal security ministers and finance minister).

"Its only function is to protect its citizens against force and fraud from internal or external sources and to establish those relations with other countries that are required to facilitate international commerce and communications." (No income tax, money can be issued by individuals or groups and revenue would be derived from the sale of coins and stamps).

"History is filled with examples of emerging nations that have become poorer or less free after independence than before because of a lack of freedom to exercise personal incentive and because of an excessive dependence on government sustenance . . .

"In this constitution, great effort has been made to hold the powers of government tightly in the hands of the people so that government will find it difficult to grow from a good servant into a bad master."

Provision is made for other islands in the northern group (neighbouring Aoba has already done so) to join the Vemarana Federation and for a loose tie with the rest of the condominium to form a "confederation of the New Hebrides."


ARTICLE XIV
RATIFICATION

This Constitution shall be ratified by a majority vote of the Constitutional Committee established for the purpose of adopting and ratifying this Constitution. The Constitutional Committee shall consist of all Custom Chiefs and such other persons selected by a three-fourths (3/4) majority vote of all Custom Chiefs.

DATED: April 15, 1980

APPROVED BY:

The constitution ratification with Stevens' signature and stamp

New Hebrides government critics bitterly attack the constitution and its claim that the Vemarana government would exist only "to protect the rights of individuals."

The critics say that only people paying for state services – courts, police and national defence – would be able to use them.

So, for example, if a citizen does not pay towards the cost of the police, he cannot receive police protection. And if the courts are not paid for, they cannot be used.

But a citizen, according to the Vila government, could still be arrested and tried by the courts for violating somebody else's rights.

Oliver is concerned with the interference of governments and most of the constitution is devoted to outlining what the administration cannot do. It cannot issue money, levy taxes, pass laws concerning marriage and divorce, nor interfere with relations between employer or employee.

All services such as posts, communications and roads would be privately owned operated, and the government would be barred from taking part in any business or trade.

Everything would revolve around individual businesses and entrepreneurs.

As Vila officials put it, a Vemarana citizen is "free" to be uneducated, or to die, if he cannot find the cash to do otherwise.

Peaceful Pacific faces real threat of terrorism

by Rocky Wood

NEW Zealand has escaped one of the great crises which has developed in the world since the late 1960s. This crisis threatens Western societies and democracy. Like inflation and the energy crisis it often seems beyond our control. But much can be done about it. The most effective ways of dealing with this problem rely on a simple point – understanding the philsophies of its perpetrators and victims. I refer, of course, to terrorism.

This country has not yet been subjected to a terrorist attack *and the public, business and the* media have developed a disarming, and potentially dangerous, attitude of "it won't happen here". The event that will bring a change in this situation about will be a terrorist attack.

Foreign experts and agencies specialising in the study of the terrorist threat are predicting a massive upsurge during the 1980s. The New Zealand attitude must therefore be reassessed and seriously questioned.

The Government has taken forward thinking measures in an attempt to counter possible incidents. But it is obvious that totally adequate measures can never be introduced. The main problem, is that sufficient measures are not taken until a country has suffered at least one attack. This has been the case in every nation and it is not something which is, or really can be, learnt from previous mistakes.

The psychological effect upon a nation suffering its first attack, specially if lives are lost or the event drags on for some time, is temporarily crippling. It brings about a change in attitude, large spending on counter-terrorist technology and an overall tightening of security. An analogy – shutting the stable door after the horse has bolted.

Terrorist incidents have increased yearly. A table produced by the Institute for *the Study of Conflict, based in* London, shows 177 recorded incidents in 1968 and 975 in 1978. That is a staggering increase of 451 per cent Early estimates produced by the Institute for Studies in International Terrorism at New York State University indicated a continuing increase in 1979 over 1978. Dr Yonah Alexander of the Institute said 45 per cent of incidents were di*rected against business.*

To carry through the intellectual justifications many terrorist organisers deliberately suppress the moral instincts of their recruits. The instinctive humanity in many terrorists has to be blunted before certain actions of cold-blooded, calculating murder and other offences, can easily be undertaken. This suppression, often obtained by acts of depravity within the group, is a threat to civilisation.

To terrorists violence is not simply a political weapon, it is a substitute for the entire political process.

The PLO, IRA, Baader-Meinhof gang, the Japanese Red Army, the Red Brigades, the Symbionese Liberation Army and dozens of similar groups have shown no desire to engage in the democratic process. Politics has always been recognised as the basic machinery of civilisation.

The terrorist act supports the spread of the totalitarian state. The countries which support the infrastructure of international terrorism (for example the Soviet Union, South Yemen, Ethiopia, Vietnam and Libya) are authoritarian states ruled by military and police power. These are repressive regimes which are interested in the destruction of democratic states.

Terrorism distinguishes between democracy and totalitarian states, in favour of the latter. It can gain a foothold in any state which is under any kind of legal, democratic or moral restraint in dealing with terrorism. A totalitarian state, using methods such as "judicial murder", preventive arrest, torture and censorship, can eliminate or cripple terrorism.

The Shah's rule in Iran was undermined by terrorists – not because his regime was ruthless but rather because it hesitated to be ruthless. While terrorism can destroy a democracy, as it destroyed Lebanon, it cannot destroy a totalitarian state.

In meeting the terrorist threat a free society must arm itself. In this process an overreaction is possible. By taking measures which are too strong a democracy threatens itself.

The terrorist philosophy succeeds when it provokes oppression. It also triumphs when it is met with appeasement.

Answering the challenge of terrorism requires an effective international response. What is possible, and is the responsibility of each country is an effective national response, from the government, the criminal justice system and the media. The wrong philosophy from any of these areas can, and often does, lead to the continuing success of individual terrorist groups.

Governments negotiate with terrorists. These negotiations are not aimed at destroying or capturing terrorists but are intended to gain the release of hostages or some similar result. The natural and inevitable result is to concede part, or all, of the terrorist demands.

We see governments releasing convicted criminals in response to these demands; we see terrorists given the status and legitimacy of negotiating partners instead of having them relegated to their correct status as common criminals; we see terrorists treated as political prisoners, instead of as murderers.

On the other hand we see newspapers, radio and television placing such terrorists as the PLO on the same level of moral equality as independent nations. We see the media portraying terrorists as politicans – misguided in their use of violence – when they are not politicians at all. They are criminals.

The beginnings of an effective national response is technological and social – better airport security, counter-terrorist units and so on. The basis of a truly effective response must be a philosophy accepted by the public and implemented by the government, the courts and the media.

The basis of this philosophy is to consider terrorists as criminals – no better, no worse. The point, however, is to treat all terrorists as criminals. Despite the moral dilemma a society cannot pick and choose.

At the Commonwealth Parliamentary Association Conference in Wellington last year the Hon J E Brockelbank of Canada suggested that one country's traitor is another country's patriot. This is a fact of life and one which a free nation must not ignore.

It is generally accepted that the only response to terrorism that will ever be successful in the long run is one which is truly international – in which every government agrees to treat terrorists as criminals when offences occur on their own soil and to extradite wanted terrorists and not to establish refuges for them.

Unfortunately it appears that this response is an idealistic one which is doomed to failure in the reality of international politics.

Every day new evidence comes to light to show that certain states not only provide safe refuges for terrorists but actively support, arm, finance and train terrorist groups to work in other nations.

Charges that the Soviet Union and its client regimes are controlling much terrorism has been evidenced recently. Some 60 trainees from the PFLP, Al Fatah and other groups were trained last year at the Crimean Military Academy at Simferopol in Russia. Robert Moss, editor of the *Economist Foreign Report* told a three-day symposium on terrorism in Jerusalem last year that political differences among the various groups seem to be submerged on these occasions for self-improvement.

A more clear cut example – it is no surprise to learn that PLO terrorists on a raid near Tel Aviv in 1978, in which 34 Israelis died, carried three maps of an East German training camp, each labelled with their names, and Soviet weaponry.

The Syrians actively back the Sacka, which is described as "nothing more or less than an adjunct of the Syrian intelligence services."

In April 1979 news was leaked that the Cuban intelligence service (which is directed by a Soviet KGB major-general) had concluded an agreement to train several hundred *Palestinian* terrorists in Cuba. PLO terrorists are also being trained by KGB officers in Hungary and Bulgaria.

Libya has long been a notorious "safe house" and training ground for terrorists and it was that country's leader, Colonel Gaddafi, who sponsored the attack on the OPEC ministers' conference in Vienna in 1975, for which he is believed to have paid Carlos over $2 million.

In 1973 the Irish navy seized a ship carrying five tons of arms and ammunition, including 250 new Russian automatic rifles. They had first been supplied to Al Fatah by the Soviets and had been given to the *Provisional* IRA by Al Fatah.

In a paper for the Institute for the Study of Conflict, Professor of International Relations, Paul Wilkinson said: "*One inescapable conclusion* to be drawn from all the evidence gathered by Western intelligence services must be that the Soviet Union and its clients and allies bear a major responsibility for supporting terrorist movements around the world on an opportunistic basis.

"They, together with a number of pro-terrorist Arab states, have provided the bulk of the cash, weapons and training for some of the most dangerous groups".

The fundamental inadequacy of the hope for an international response is evident.

Some nations have nothing to gain and much to lose by helping stamp out terrorism. The king pin of these is the Soviet Union, currently in se*rious strife for its overt actions* in Afghanistan. Perhaps it is time to take a closer look at the covert actions of the Soviets and their "independent" allies.

Much business terrorism is aimed at extorting money from multi-nationals. This money is then used for more brutal terrorism. Terrorists will rarely kill a businessperson if a ransom is paid but will kill or maim political targets or innocent bystanders *without compunction.*

William Neihous, the American corporate executive kidnapped by Venezuelan terrorists and held for ransom for 40 months before his rescue, had this to say about his captors: "I was held by the right kind of people who, although they might not have respected my right to be free, did respect my right to the most basic of all rights – *life.*"

New Zealand will inevitably suffer a terrorist attack sooner or later and we will then have to awaken ourselves to certain realities. Will we negotiate for hostages' lives and let the killers go or will we let the hostages die? How will we treat any captured terrorists – as political prisoners or murderers? How would the nation react to an internal terrorist group?

Make no mistake – New Zealand is vulnerable and ripe for the attack.

An attack here would make world headlines (terrorists crave publicity) and terrorists *might suspect that our response* would be inadequate enough to ensure success. How will we bear up under the inevitable?

Rocky Wood is the Research *Officer for Armoured* Freightways Ltd.

Brokers move to implement self-regulation system

by Rae Mazengarb

THE Corporation of Insurance Brokers has moved to implement a system of self-regulation. But it is still pressing for statutory controls.

At the corporation's annual meeting in Wellington, members adopted a recommendation to substantially change membership and voting rights and agreed to a code of conduct and practice designed to upgrade brokers' standards.

A move to substantially raise the required level of professional indemnity insurance – now a minimum of $30,000 – was set aside for later consideration on the grounds that the proposed amount could squeeze smaller brokers out of the marketplace.

Draft legislation in the form of an Insurance Brokers' Registration Act — to protect the public from broker failures and defaults – previously had been presented to Justice Minister Jim McLay.

But he told the meeting he had not been convinced that legislative control of the industry was in the public interest.

He had seen "some merit in the request" but had called for further submissions.

He assured the brokers that the new submissions, would "be given the most careful consideration".

Industry members have claimed that a statute which recognised the profession and its ruling body would give the corporation the teeth it needed to prevent all and sundry from setting up shop and calling themselves brokers.

McLay pointed out that the industry had never been under legislative control but had "already attained a high degree of voluntary self-regulation", even when compared with other occupations and professions regulated by statute.

He gave credit for that, but left the issue of Government or legislative control for further discussion.

He reiterated earlier observations that control of a particular industry or profession is "best exercised from within" — members of a particular industry group have the most interest in ensuring that proper standards are maintained inside the industry, and the most to lose if they are not maintained.

He admitted that a legislative framework sometimes was required but said the most important question was whether there was a demonstrable need here for legislation similar to that adopted in Britain.

Corporation president Murray Hogan said the Minister was "sympathetic" to the brokers' request.

Since the early 1960s there had been a proliferation of brokers, he said.

Where was the security for the public — the guarantee that one was not dealing with a "man of straw"? he asked.

In 1960 there were only about eight broking organisations in Auckland. Today there are about 45, ranging in size from one-man operations to huge multinationals. They can be registered (recognised and regulated by the industry body) or unregistered.

Last year the operations of one insurance broking company — R Tether Insurance Ltd — required the appointment of a provisional liquidator and later a winding-up order.

But industry members felt those moves were like shutting the gate after the horse had bolted, and provided little solace for the many clients who suffered heavy losses on damaged aircraft and sunken vessels. The Tether clients believed they had insurance cover, only to find their claims unpaid.

At that time, there was a mushrooming of broking organisations (many unregistered and not subject to the CIB's strict requirements) in a difficult and competitive market.

The corporation approached McLay late last year seeking legislation to oblige registration of brokers.

The need to cover a much wider area of the market than previously to stay competitive had markedly increased overheads. But a "softness in the marketplace" had had a reducing effect on incomes, Hogan said.

Hogan spelt out progress on the legislation, emphasising that the Minister's comment to the corporation had centred on two questions.

- An elaboration of the "public interest" aspect;
- The need for brokers to form trust accounts into which client premiums would be paid.

The corporation's council had prepared new submissions which detailed broker failures in New Zealand and overseas. These were with the corporation's solicitor, Hogan said.

The major change to result from the annual meeting gave effect to a new membership structure and revision of voting rights.

The new code of conduct specifies ethical standards, requirements of impartiality and independence of particular insurers, adherence to Reserve Bank requirements regarding placement of risks offshore, clauses requiring adherence to regulatory legislation including the "proposed Brokers Registration Bill", and criteria for the acquisition of business held by another broker.

Efforts to raise the minimum level of professional indemnity cover by more than $200,000 were hindered by considerations for the smaller brokers who might feel pressured by the requirement.

O & M looks to second decade

by Grev Wiggs

GEOFF Lindley, managing director of Ogilvy & Mather, Sydney, paid a nostalgic visit to Wellington to join in the tenth birthday celebrations of O & M's Wellington office which he established.

"Our chief problem in getting successfully under way," he told *Admark*, "was the opposition offered by New Zealand agencies.

"Kiwis are tough and resourceful advertising people. That is why we have much more than a proportionate number of New Zealanders with our company in offices around the world."

At the end of the first decade of local operation, the company was soundly established with two offices and a highly trained staff at all levels Lindley said.

It had earned a vote of confidence from the large and significant advertisers who placed business in the country. Only 10 per cent of the accounts held were international in character and the balance consisted of local companies.

New Zealand chairman, Ken Brady, told *Admark* that as an early move in its second decade, the local company would follow an O & M overseas trend in developing a direct response operation. The company has 13 direct response agencies in nine countries. Australia had entered the field about a year ago.

Geoff Lindley . . . here for celebrations

"Working women have more money but less time to spend it in," said Lindley. "Couple this with the energy problem, parking and traffic hassles and greater in-store traffic and shopping is less of a pleasure.

"At the same time, credit cards and improved electronic technology are making it increasingly easier to shop through direct response. In USA 20 per cent of the shoppig is done this way.

"This is the marketing wave of the future," said Lindley.

No bouquet for wine ad

THE wine industry has never had it so good. Year after year, the consumption of wine grows steadily and vineyard plantings extend. With increasing popularity comes a demand for better, and hence pricier, wines.

The annual accounts of listed wine companies reflect the growing prosperity.

But the industry faces the strong possibility of losing credibility with its consumers — a confidence crisis that calls for an overhaul in current methods of advertising communication.

The exposure of the fact that some of the contents of New Zealand wine bottles could come from the tap as well as the grape meant that wine-bibbers could never again look familiar labels in the face with the same degree of confidence. Failure to name the offenders smeared the possibility of guilt over the whole industry. And the introduction of legislation to sanctify the practice does not do a thing for the industry image.

In a similar way, the new labelling requirements can be construed to reflect unfavourably on current procedures.

Under the new provisions, a wine cannot bear the name of a single grape unless 75 per cent of the juice used comes from that variety. This raises the questions of what standards the winemakers have been using in the past and why the regulation was felt necessary.

Wine buffs, through greater exposure to a wider variety of New Zealand wines, have become more knowledgable, more discriminating and more critical. And inexorable price increases have narrowed the gap between Australian and New Zealand wines. It is clear that a new situation is emerging.

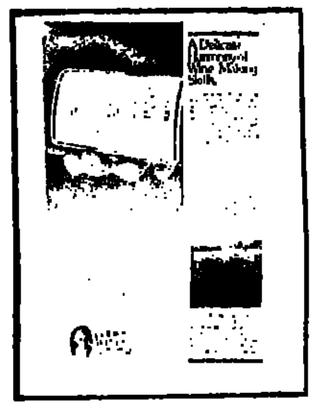
It is time the wine industry as a whole began to recognise that its customers are tolerably well informed in wine matters and to understand that information would be more welcome than flattery or smooth prose in the advertising communication.

Typical of the outdated approach is that exampled by an ad for Corbans claret. "Corbans Reserve Claret. Strictly for the connoisseur," says the fairly pedestrian headline.

The copy begins: "Vinted predominantly from the noble Cabernet Sauvignon grape, Corban Reserve Claret has been aged in small oaken casks." Predominantly? So what else is used? The copy does not say — even though the label states — that cabernet is combined with pinotage. The "connoisseur" will undoubtedly know that French claret blend other grapes with the 60-80 per cent cabernet content to produce "the strength of character expected from the great wines of Bordeaux" that the copy talks about. So why be so coy about the addition of a second grape juice?

(The new labelling regulations demand that where two grapes are named on the label, they must supply 75 per cent of the juice from which it is made and be listed in order of proportion.)

The Corbans ad is a typical rather than a bad example of the wine advertising which still talks about abstracts such as "fresh finish" and "balance" without getting down to basics on product information.



But we found a shining example of consumer oriented advertising.

Cooks Wines released an ad for Fernhill Riesling headed "A Delicate Harmony of Wine-Making Skills.'

The copy tells those interested that the wine is made from the riesling-sylvaner grape, that the Fernhill vineyard is on the sunny, north-facing bank of the Ngaruro river in Hawkes Bay, that it is planted in well-drained river silt and that the wine is back-blended in the German style.

Conceding that wine-making skills are all they should be, that is about all the information that the "connoisseur" needs to know. Except that if you still want to add to your knowledge you can write for an informatory booklet. At least Cooks is treating its customers seriously.

But . . . that label which says "Riesling. A back-blended medium white wine." This coming vintage, won't it have to read "Riesling-Sylvaner" which is a cross between Riesling and Sylvaner, rather than "Riesling" — one of the aristocrats of wine grapes from which is derived the great German hocks?

Marketing award

ENTRIES are being received for the SMEI Marketing Award of the Year won last year by Heineman's New Zealand dictionary. The closing date is August 4 and the award will be presented at the SMEI national convention in September.

Industrial relations

Betrothed unions legitimise marriage in stormy Saturday scene

THE Government's decision to permit stores to open from 7am to 9pm on Saturdays was seen in Wellington as a major political victory for those within caucus and Cabinet of a private enterprise persuasion. And it gladdened the hearts of Auckland entrepreneurs who have been pushing for weekend trading.

Not so in the cold and smoggy South.

In Christchurch, retailers seem less than enthused by the prospect of being dragged into the weekend maul

Canterbury Retailers' Association president Tony Gyde said the Government's move had not changed his executive's views on the issue.

Gyde said his executive believed the lack of population growth, coupled with the continued growth of shopping centres and other retail outlets, indicated that consumers had increasing opportunities for convenient shopping.

Retailers' Association representatives have met with local union officials to discuss their common problem.

But the executive decision on extended trading is not the end of the matter. The Retailers' Association plans to call a meeting of all retailers in Christchurch today.

The issue of weekend trading will be discussed at that meeting and a vote of all the retailers present will assess opinion.

Whatever the outcome of the meeting, some retailers already know where they stand.

Ron Maxsted, an ex-accountant, is the furnishing manager of the McKenzie and Willis Company. The business is doing nicely, thank you.

Maxsted has been opposed to Saturday shopping since it was first mooted. He says he has written to Labour Minister Jim Bolger, Prime Minister Rob Muldoon and Trade and Industry Minister Lance Adams-Schneider over the issue, but has always been fobbed off.

Maxsted opposes Saturday trading for the following reasons.

- It will detract from family life
- It will not help the smaller firms, only the big ones. "It's so obvious that Fletchers and Woolworths and the big food groups have pushed this along from the start ... Fletchers have been lobbying right the way through."

Maxsted acknowledges one of the Government's goals. "I can see what they're trying to do. Open things up, and the inefficient operators go to the wall ... the smaller shops and the ones that can't compete with the lower mark-ups. But that only works in a market of 60 million, not 3 million."

- Maxsted believes Saturday trading will push up prices. "It couldn't be much less than 10 per cent, and it could go up to 16 per cent."

He says that United States retailers realise this and identify weekend trading as their biggest cost problem.

- The move is not needed nationwide. Maxsted concedes an "obvious demand in Auckland."

Maxsted is concerned that the debate and dissent generated by the Government's 7am to 9pm Saturday proposal will encourage shop employees to vote in favour of joining the Distribution Federation.

The amalgamation proposed is of the Drivers Unions, Storemen and Packers Unions, and Shop Employees Unions so that they become part of one federation controlled by a single executive. The storemen and packers unions do not include the Wellington-based Storeman's Union, run by Phil Mansor, which has no links with Mike Jackson's northern union, or storemen in Christchurch.

Maxsted sees the Distribution Federation as a major problem and one which is more likely to arise through the Saturday shopping issue.

"A Distribution Federation would be a tough cooky to overcome and it could make shop employees more militant," he argues.

"What bothers me is that shop assistants could vote to join it to keep the hours as they are. The after effects of that could be long standing. If they join then they could be in the forefront of industrial problems."

Maxsted is not sure where the idea for the federation came from. He is sure that once it is formed "Mr Andersen would be in charge of that little outfit very short and sharp and quick."

With the federation would come more cash. And he "wouldn't like to see him get hold of shop assistant's money ..."

Maxsted's concern about the federation is echoed in *Retail News'* May editorial. The federation's perpetrators are described as "intent on building a base of power to be used at will".

It says the Distribution Federation could have no concern for the legitimate concern of unionism" and intoned that shop employees would become pawns in the "master plan" of the left.

Graham Kelly, of the Shop Employees' Union national executive and secretary of the Wellington branch of the union, describes the Retailers Federation editorial as "bloody scurrilous".

Kelly says the idea of amalgamation has been discussed for several years but has always stalled over the problem of group independence.

In 1976, he went to the United States to look at the industrial situation and shop employees unions. In Los Angeles, he met 70-year-old trade union secretary Leonard Levy.

Levy had successfully amalgamated clothing workers, garment workers, engineers responsible for servicing photocopiers and computers, retail workers in food and non-food outlets into a combined union.

Levy had turned four into one and made it work. He had done this, says Kelly, by converting existing union executives into occupational group committees – each responsible for the day-to-day affairs of their own sector of the union and each able to formulate their own policies on industrial and other matters provided those policies were publically stated to be the view of a group within the union, and not the union as a whole.

Levy's king-size union had additional expertise available to it because of its increased income, but the members of the new "federation" retained their own status, independence of operation and policy to the extent that they desired those things.

On his return to New Zealand, Kelly proposed a Distribution Federation organisationally based on Levy's Los Angeles model.

He said he first proposed the federation before the Shop Employees Union had any indication of the Government's intention to modify Saturday shopping laws.

The union was told in mid-December 1976 that the Government planned changes.

Those changes surfaced, and were opposed by shop employees in 1977.

Kelly says the federation has been operating since July 1977, when the three unions (storemen, drivers, and shop employees) opened a combined office.

All that will happen this year, he says, is that the working arrangement will be made legal.

"We could have formed the federation three years ago, and had it registered. But we decided to see if we could sleep together first before we tied the knot".

That knot will be tied later this year when members of the three unions vote at meetings on the federation issue.

It seems unlikely that the idea will be opposed. Annual conferences of both drivers and shop employees have voted to disband their national associations and amalgamate.

Kelly feels the final vote – he is confident it will be for federation–will give the new organisation greater strength and weight.

Previous members' meetings within his own union have repeatedly supported federation or amalgamation proposals.

Kelly says shop employees realise this is the only way to get a better deal for people at the bottom of the income heap.

He feels attacks, such as those levelled in the *Retail News* editorial have only helped the new organisation's chances. "There's no way this thing can be stopped, by Government or God. And the employers are a non-event on this one."

Union sources say that retailers do nothing but promote the new federation when they suggest it is a takeover bid by the drivers union now that its membership and funds are dwindling. That is not correct, they say, and the history of the proposed federation proves it.

One union official said the drivers had been reluctant bedmates at the start. They could see no advantage in amalgamation with "a lot of shoppies".

Clearly the drivers have lost their jaundiced view of matters – they are still there, and intend to stay. Union sources reject that the drivers' involvement indicates some devious Bill Andersen strategy to take over the running of the three unions.

Far from some kind of evil genius behind it all, union officials say Bill Andersen has played almost no part in the development of the federation. "He's been a non-event", says one official. "He's not even a representative of the Drivers' Federation on the Joint Administering Committee".

Kelly concedes that "tying the knot" will give "us a little more clout" but says the three unions are already taking concerted industrial action and have been doing so for some time.

Kelly says the federation will not create some super-militant tro

Kelly says the federation will not create some super-militant *troika* simply because the groups involved are so different. He says that Wellington shop employees and drivers unions have for some time had resolutions on their books "to get to know each other. But its never happened. As a class of person you're never going to get them together – or get one group dominating the other. I've got tremendous faith that drivers know what's best for them and shop employees the same".

But Kelly still sees advantages in the federation. "You'd have to be stupid or naive to think that we would do this if there weren't." He's convinced union members will get an improved standard of living from the federation, not as a result of militancy but as a result of better organisation.

The Combined Unions' central office, operating since July 1977, has dramatically boosted the resources available to the unions involved, he says.

The central office initially combined the staff of the separate national offices of the Drivers' Federation and the National Shop Employee Association.

The combined office has a joint national secretary and administration officer (Stu McCaffley), an industrial advocate (Rob Campbell), two research staff, and four office staff. It has the funds to employ other experts as it needs from time to time.

"Now we're a financially viable, professional, going concern" says Graham Kelly. "We like the three legged race – its going well. Our middle leg has allowed us to gain a lot more in the past than we knew about and we're going to gain a lot more in the future".

Retailers are worried at the moment. The *Retail News* editorial is clear evidence of their concern. Some retailers see the Saturday shopping debate giving impetus to the federation's formation. Kelly says the two things have nothing to do with each other.

If that's the case, then retailers have very little option but to grin and bear it. They won't be looking for a major row with the union in the next month or so. They'll be busy enough ironing out their own – and the Governments – attitude to the vexed and vexatious question of what to do with all those cash registers at the weekend.

Frank Yukich treads his way to successfully realis his vision for the wine industry

by Frank Thorpy

DALMATIAN immigrant Ivan Yukich and two of his sons, Frank and Mate, arrived in New Zealand in 1934.

Having a family tradition of winemaking, Ivan's first years were devoted to market gardening to build up the capital to establish a vineyard. Within a few years he had bought a property high up in the Waitakeres, fronting the Titirangi Scenic Drive. He called the three-acre vineyard, "Montana" because it reminded him of the mountains of his homeland.

Frank, working in his father's vineyard, became fired with a vision of the potential of the New Zealand wine industry – he wanted to share that vision with other small winemakers, but they were unable to comprehend the magnitude of his projections.

In 1961, the Yukiches registered Montana Wines Ltd with a capital of 10,000 pounds. It took Montana Wines just over 10 years to reach the top position in the New Zealand wine industry.

Frank says the ingredients of his success were meticulous but imaginative planning, intensive propagation of classical vinifera grapes, application of the most modern vineyard and winemaking techniques, and aggressive marketing. Plus, it must be said, the boom in wine sales and a shortage of wines due to very restrictive import licensing.

Consolidation of the company's financial and distribution strength came with the taking up of substantial shareholding by prominent Auckland accountant Roll Porter and the liquor wholesaling giant, Campbell and Ehrenfried, now a member of the Lion Breweries consortium.

Harry Ibbertson, of Lion, and Porter joined the board, and materially contributed to the growth of the new Montana Holdings Ltd.

Vineyard planting increased spectacularly – first on a 260-acre property at Mangatangi, at that time the largest single vineyard in the country, then on large acquisitions in Gisborne, the Wairau Valley estates, and later, with the buying of Waihirere Wines and the establishment of an automated modern winery on the outskirts of Gisborne.

By the late 1960s, Montana had become an aggressive and powerful force in the marketing of New Zealand wine. While the major production of other companies was from sherries and fortified wines, Montana led the swing to table and sparkling wines, including such best forgotten brand names as Cold Duck, and Poulet-Poulet.

In early 1972, having achieved 22 per cent of the New Zealand market and a production of 1,100,000 gallons of wine, Frank realised that to improve production and reach even higher sales, he needed better quality wines and improved technology. He contacted Professor Berg of the Oenology School at Davis, University of California, and with his help, recruited two top graduates, Randy Weaver and Dan Robison, to head the winemaking team.

Later he recruited Peter Hubscher, from McWilliams Wines, to be winery manager.

Penfolds . . . wine for average income earner

In 1973, Wayne Thomas, DSIR research scientist, joined the team. His first job was to research the best place to plant a 200-acre vineyard.

His findings clearly indicated Marlborough was that area (as had already been pointed out by a writer on wine as far back as 1964).

Backed by Frank, the report was put to the next board meeting. It was turned down because the directors wanted more evidence to prove the research that had been done.

Thomas had already left for a four-month course on mist propagation of virus free grapes at Davis. Frank rang Thomas in California, who said he would discuss his findings with his professors at the university.

After thoroughly investigating his report, three professors advised the board that, after checking all the data – sunshine, rainfall, frost, soil type, and so on – Blenheim would be most suitable for viticulture and would make a good grape-growing area.

The board approved the purchase of the land, which, had already been secretly purchased by Yukich.

When the news became public, the area was downgraded by 99 per cent of the wine experts.

But Blenheim was the first winegrowing areas to be planted after a scientific evaluation. All other areas, except Gisborne, had been planted for sociological or historical reasons; Gisborne had been planted because it was a lush area producing quantity but not quality grapes, which were needed in the wine boom.

Another step was the introduction of Seagrams of Canada and the United States as a partner. Don Maisey, marketing manager, now of Corbans, had first contacted Seagrams during a sales trip to the United States. That company, then buying vineyards in all parts of the world, was keen to join in with Montana.

In 1974, after a disagreement on policy, Frank Yukich stepped down from active management. As the then largest shareholder, he remained as a director till resigning in 1977.

Financially independent as a result of his Montana operation, Yukich nevertheless was too young too restless to retire.

In 1975, he started Castel Wine and Spirit Co Ltd, which in a three-year period acquired nine wine resale shops, part ownership of a wine and spirit wholesale merchant, and in 1977, his present dominant interest, Penfolds Wines.

Since July 1977, the paid-up capital of the company has increased from $647,500 to $2,378,660 split into 50c shares.

Penfolds has embarked on a major expansion project aimed at transforming the company into a producer of quality table wines.

It has invested $3 million improving the winery plant facilities. The winery is now capable of handling up to three times its present production with additional expenditure only required on the bottling line, storage tanks and case housing facilities.

Contract growers are spread through the winegrowing districts of Marlborough, Hawke's Bay, Gisborne, Wairoa, East Coast and Henderson.

From the 1981 vintage Penfolds will rely entirely on contract growers with long term contracts to produce the company's total grape requirements.

The company believes that contract growers are able to produce better quality grape crops as the crop represents their prime livelihood.

And the policy allows the company to concentrate on winemaking and the marketing of the finished wine, which have become highly specialised fields. No doubt, too, the cost of acquiring land is a factor.

Yukich was able to buy up 3000 acres of prime farmland in Blenheim for Montana at around $600 an acre. Today the cost of similar land is on the market as high as $5000 an acre.

Montana, Penfolds and Corbans are already operating there, undoubtedly the best grape growing area in New Zealand. Other large companies are interested.

Penfolds has bought a site for a winery there as it has done in Gisborne.

One Gisborne planting project, Waiapu Valley Vineyard at Tikitiki, breaks new ground. In a deal with Maori landowners, the Department of Maori Affairs and Penfolds a Government loan of $620,000 has been arranged through the Maori trustees for the development of a major grape-growing venture of [illegible] hectares.

Penfolds expects that present and projected plantings by contract growers will eventually result in a tonnage of 19,500 tonnes of top class varietal grapes by 1986. However well placed the company will be from, say, 1981 after having difficulties in getting sufficient grapes at present to meet its ever increasing sales.

This has caused friction with some of the other leading companies which resented the advent of what they considered a newcomer, though [illegible] feared one, into the field of buying grapes from contract growers.

Too many companies are chasing too few grapes. And though some now say they have sufficient grapes to meet their sales commitments, all the leading companies were behind the successful effort of the Wine Institute to amend the Food and Drug Regulations allowing them to legally adulterate their bulk wines by up to 20 per cent with water and sugar.

All except Penfolds, which strenuously opposed the proposed water and sugar regulations without [illegible] and advocated the importation of more overseas wines [illegible] position [illegible]

Two years ago, Frank Yukich convinced the Trade and Industry Department it was better because of the shortage of grapes to allow grape concentrate to be imported from Australia, rather than using cane sugar from, say, Fiji or Cuba.

The other companies, alarmed at this obvious move to overcome a shortage of grapes, sought a High Court injunction against Penfolds, stating that the Sale of Liquor Act permitted New Zealand wine to be made from New Zealand grapes only.

The matter was settled out of court, but no further import licences have been issued for Australian grape concentrate – in some respects a retrograde step.

Since July 1977, when Frank Yukich took over Penfolds, the company has earned a reputation of being one of the more progressive and innovative members of the wine industry.

Though Penfolds, at one time, had 70 per cent of its turnover in fortified wines, this percentage is now down to about 14 per cent (thus it will not be seriously affected by the increased taxes in the Budget), and the main thrust has been in improving the company's share of the table wine market with emphasis on quality varietal wines.

The bulk wine trade has not been neglected, and now appearing at the more prestigious hotels and catering places are highly decorative Penfolds barrels, known as catering kegs, with a capacity of 50 litres, which dispense under carefully regulated conditions Penfolds burgundy, hock and moselle. The quality ofthe product is being upgraded as better grapes come into fruition.

Three per cent of turnover has been budgeted to be spent on advertising and promotional ventures. This could be a substantial amount as the company's sales to June 1979 were $4,741,283, and to June 1980, it is estimated that sales could reach $8,500,000. In three years the company says it has moved from seventh place in wine sales to fourth.

Frank Yukich means to make Penfolds number one in sales and quality within five years. He says he is convinced that to be number one in sales, the company has to be number one in quality. To achieve this means he has to have a competent and reliable staff. A strong team spirit has been developed in all areas of management with the capabilities, knowledge, drive and foresight to carry the company to the top of the New Zealand wine industry.

Not all of Frank Yukich's schemes have met with success, and he had had to admit failure in his two attempts to merge with Cooks Wines.

His stated objectives in the merger were:

- To reduce the unit costs and thereby maintain selling prices at the lowest possible levels;
- To improve overall competition in the industry by the creation of a strong competitor;
- To better utilise the present and planned winery plants and the facilities of Penfolds and Cooks;
- To provide a sounder base from which to fully develop the export market, which both companies have already entered in a limited way;
- To establish a larger operation which could support the costs of a viticultural and winemaking research unit.

He first attempted to buy the 50 per cent shareholding in Cooks held by Marac, but was thwarted by the Cooks board and the Examiner of Commercial Practices who held that the merger would be against the interests of the industry as a whole – an opinion not shared by many independent observers.

These shares, which represented a threat to the existing directors of Cooks, were eventually parcelled out to various interests friendly to the board, including Transvision which held a 25 per cent interest.

Not one to be deterred by obstacles, Frank Yukich then mounted through Wellington sharebrokers, a buying operation in the market. He eventually obtained 265,000 shares, a 6 per cent holding, and then, according to some reports, approached Transvision, which was not receptive.

The Cooks board actively campaigned against any possible takeover, and it is thought that some contract growers were sufficiently influenced to write to the Examiner of Commercial Practices against any proposed merger.

Frank Yukich had to admit defeat and reportedly sold his shares at a substantial profit to the now major shareholders, Transvision.

He is philosophical, and says his main objective now is to consolidate and improve the image of Penfolds. He is succeeding, witness the award of gold medals at the recent London International Wine Show to Penfolds 1979 Autumn Riesling and Cabernet Rose, the first of many top awards, he avers.

He is convinced that all sections in the wine industry, grape growers, winemakers, merchants and resellers, must become price and efficiency conscious.

Frank Yukich . . . not one to be deterred

Wine must remain within the price bracket of the average income earner. This will put pressure on winemakers to make higher quality wine at a lower price, and will create more competition. And, he says, where there is competition in the market place, Frank Yukich and Penfolds will be there.

Computers

PO problems on Oasis Link

by Stephen Bell

AFTER less than a year's experience of on-line access to overseas databases, New Zealand businesses have again learned what it is like to be without such informational resources.

The Post Office's Oasis link to the United States has been experiencing what are officially described as "intermittent difficulties".

More intensive users in *practice found it hardly worth* trying to access the system at all. The experience was described by one as "a disaster".

The Oasis link gives several users concurrent access to the United States packet-switched *networks Telenet and Tymnet*, which in turn allow valuable commercial, technical and news information to be retrieved from the computer databanks of several American information services (*NBR July 25, 1979*).

The information, users say, is inestimably helpful in keeping New Zealand companies up-to-date with developments and markets in their areas of industry overseas.

The trouble happened at a time when not many local companies are making intensive use *of the link directly. But* users such as UEB, who offer an information service to other companies, lost a good deal of business. The number of brokers' customers who were adversely affected is unknown.

The Post Office repeatedly expressed hopes that the system would be working permanently within a short time, but this, ironically, turned out to be counter-productive.

"If we'd known at the beginning that the system would be down for so long, we could have sent some of our work to Australia", said one user.

The troubles with Oasis began on June 5, and service was *not permanently* restored until July 1. Fortunately for future users, the initial trouble uncovered an unrelated and previously undetected bug in the software of the standby system.

Testing procedures traced the initial fault to "an item of equipment at the American end of the circuit", said a Post Office representative. When this was replaced, "intermittent difficulties of a different type were encountered and it was discovered that a subtle incompatibility existed between the software associated with the replacement unit and that in the complementary unit at the New Zealand end of the circuit."

This second problem proved difficult to isolate, owing partly to "the intermittent nature of the symptoms", said the Post Office.

Users have been reassured that compatible working and back-up equipment is in place at both ends of the satellite link. In case of trouble with the satellite itself, "standby circuits are also available" said the NZPO spokesperson.

On a further note, which will doubtless bring hollow laughter from Oasis users, the Post Office refers to "alternative telecommunications services . . . to access . . . Tymnet and Telenet services *when Oasis is unavailable; the* international Datel and Telex services."

It was the impossibility of working with Datel services, owing to a limited number of entry points into the United *States, which started the nego*tiations which led to the setting up of Oasis.

Systems roll off line

CUSTOMER deliveries of IBM's *long-awaited* System/38 small business computer have begun, in the United States at least. New Zealand clients will have to wait until later this year for their new machines.

System/38s are already in place at three United States test sites and at IBM offices, including Auckland. The latter have allowed aspiring 38 users to do their programming and testing in advance and to *accumulate some experience of* the machine's features.

With a concept called "single level storage", the 38 virtually abolishes, from the user's point of view, the distinction between primary storage (core or semiconductor) and secondary storage (discs). On top of this is a 'relational' database system; a mode of data organiation long-known as a theory, but still rarely implemented practically.

When the separately designed portions of the System/38 were brought together for the first time, there were mismatches which slowed down the machine's performance drastically. Delivery was postponed while IBM made improvements, and this resulted in the cancelling of some 38 orders, including one from Victoria University, Wellington.

Bookshops sell computers

A NEW outlet is emerging for the small desktop computer – the local bookshop.

The Whitcoulls chain has concluded an agreement to sell the Ohio Scientific range of microcomputers over the counter to home and small business users.

The market for such 'personal' computers is already large and growing in the United States and Europe, with many retail outlets for the machines and several magazines catering specifically for the 'personal' computer user.

Take-off of the market in New Zealand has been slower, *with prices of the equipment* boosted by a 40 per cent sales tax. Until recently, most users of the microprocessor-based machines have been in the small business area.

But now, according to Whitcoulls representative Vincent Chew, the home user is ready for the machine.

New Zealanders have been buying second television sets, he pointed out, and this indicated that they would be willing to spend an equivalent amount of money on a device which could be a practical help in the running of the home and education of the family, as well as an entertainment device.

The second television could actually become part of the home computer. An interface developed locally allows the *machines sold by Whitcoulls to* use a normal colour television set as their visual display unit – though purpose-built VDUs are supplied as part of the range.

The Ohio range of machines offered through Whitcoulls *runs from the 'Superboard II'* – a bare circuit-board machine, aimed at the enthusiast with at least some electronic 'do it yourself' ability – to the C8, a ready-to-use machine equipped, in its most advanced form, with 48,000 bytes of memory, dual floppy disc data storage and a wide variety of input-output interfaces.

Whitcoulls is training its own bookshop staff to provide support and guidance for the user in selection and use of an appropriate machine.

Software packages supplied with the *machines are delibe*rately oriented to the non-expert user, said Chew. All programs give step-by-step instructions on the screen – instructions which can be bypassed when the user becomes accustomed to operating the computer.

Ready-written programs from Ohio Scientific run from games, through educational aids to business packages, and a home security system to protect *against burglary and fire.*

The capability of the hardware and the versatile range of software provided were among the chief reasons why Whitcoulls chose the Ohio range for its venture into the personal computing market, said Chew. The widespread availability of back-up service from local agents Computer Consultants was also a factor in the choice.

Chew envisages faulty hardware being sent back to CCL for repair on a one-time basis, much as one would treat a faulty stereo system.

Local government

Waitemata: streak of healthy anarchism beneath the rustic facade makes city almost ungovernable

by Warren Berryman

TO the urban-weary Aucklander, Waitemata City's 37,550 hectares of rolling hills, vineyards and orchards and mountainous bush roads leading to the Tasman Sea present an aura of peace.

But beneath its bucolic facade, Waitemata is seething with discontent. Hardly a week goes by without a ratepayers' revolt, calls for the resignation of mayor and councillors, or the circulation of pamphlets alleging misconduct by Mayor Ian McHardy.

It is said that every Waitemata resident carrys a switchblade sharpened for political backstabbing.

Waitemata City, dubbed "Mickey Mouse Land" since its creation in 1974, appears to be almost ungovernable.

In a way, Waitemata has the most open government in the country. The ink is barely dry on council resolutions, plans, or zoning changes before this confidential information is leaked to newspapers', ratepayers' bodies and political dissidents.

And Waitemata has more than its share of politically aware and active dissidents.

The scattered suburban areas are peopled mainly with artisans — independent types who know their own best interests.

The hills are filled with alternative-lifestyle members, of the cheese-cloth-and-sandals brigade, ever ready to torpedo any perceptible threat from those dark satanic mills.

There are the weekend hillbillies — professional people from Auckland living in bushy retreats in the Waitakeres, people with the political nouse and inclination to stir when they see their interests threatened.

Then there are the Dalmatians, gumdiggers turned vintners, orchardists, or small businessmen. Stubborn individualists ... colourful interesting people, but tough people to govern as the city council and the Apple and Pear Board have found to their dismay.

A streak of healthy anarchism runs strong in Waitemata. One only has to squint slightly, looking out across those hills, to conjure up a picture of the Waitemata hillbilly saying: "Government men coming. Shoot 'em high pa, we need the pants."

Today, Waitematans are gunning for Mayor Ian McHardy.

WAITEMATA City has its problems. The 88-page Audit Office report presented last July outlined the problems inherent at the city's birth in 1974 — a large expensive area to service and no industrial rate base to help pay the bills.

In addition, 40 per cent of the rateable area was owned by the Auckland Regional Authority and Auckland City, neither of which paid more than peppercorn rates.

These were the problems Waitemata was forced to live with.

The Audit Office also laid into the council for poor forward planning, inadequate (or cosmetic) accounting, lack of teamwork, poor staff morale, and the lack of a manual of administration policy.

Waitemata Mayor Ian McHardy claims to have corrected many of these shortcomings. His detractors have their doubts.

Among his achievements, McHardy lists:

- Holding rates to the level of inflation for years running;
- Shifting the city administration to Henderson. This, McHardy said, "brought administration closer to the people" and allowed Waitemata to achieve savings by closing down two branch offices, and reducing staff from 221 to 215 over months. Previously city administration offices were scattered between central Auckland, Titirangi, Te Atatu, and Massey. McHardy claimed the shift saved money. His detractors claim it cost the city dearly;
- Under McHardy's leadership the council established a refuse bailing station. Set up in just eight months, this plant is now reaching break-even point after just two years of operation, McHardy said.
- The council's vehicle-testing station opened in February. McHardy said the station will test 100,000 vehicles a year. But this scheme brought strong opposition. Residents of distant Titirangi resent having to drive all the way to Henderson for a warrant of fitness. And private garage owners resent losing their WOF business which usually brought some additional revenue for mechanical work.
- Waitemata City took over the financing of the Whenuapai Bus Company when it looked like its private owners were going to close down operations. McHardy said this company was now trading well enough to subsidise two new buses with $70,000 each, as well as saving $200,000 a year in Auckland Regional Authority bus levy. McHardy's opponent in the coming mayoral race, Tony Covic, predicts the bus venture will be a disaster. "No local authority can make money on buses," he said.
- On the administrative side, McHardy said he had removed eight city executives in the past two years. Other city employees found their departure hastened when it was discovered that Temporary Employment Programme employees were doing work on senior council employees' houses rather than devoting their efforts to the city ratepayers' benefit.
- McHardy's major thrust at the moment is to provide the city with industry — offering an industrial rate base to ease the rate burden on homeowners and industry to provide jobs for Waitematans. If successful, this will go a long way toward solving the rate base problem outlined by the Audit Office.

But McHardy's plans to industrialise a portion of Waitemata have drawn heavy flak.

Waitemata has a reputation for pettylogging regulations and building ordinances. This factor has discouraged industrial development in the past.

Aware of this bad reputation and out to change it, McHardy said the council had just approved a fast-track system of approval for industrial development.

Now all that's left for McHardy to do is sell Waitemata's industrial land to recession-pinched investors; calm clamourings of the environmental lobby; convince the voters he is not the opportunist his opponents claim he is; and win the election coming up in October.

McHardy said he had not yet decided if he would run for mayor again or not.

A few years ago, these same dissidents gunned down the first Waitemata City Council. Before that, the county council, after years of trying to manage the unmanagable, had turned inward to self-destruct.

To hear the outspoken dissidents tell it, their mayor is the biggest crook unhung.

In fairness, a philosopher-king would have a tough time running Waitemata.

Much, if not all, of the ratepayers revolts, backbiting, vindictiveness and hatred stem from 1974, when someone got out a map and pencilled in Waitemata's new boundaries to create an almost unmanageable and arguably uneconomic unit.

With these lines, Waitemata County Council passed out of existence and Waitemata City was born.

Nearly two decades ago, the Local Government Commission proposed a Waitakere City incorporating what is now Waitemata plus industrialised Glen Eden, New Lynn, and Henderson. That scheme fell apart from six years of wrangling and the Local Government Commission appeared to lose interest in Waitemata.

Waitemata is New Zealand's third largest city in land area and the sixth largest in population.

But Waitemata was created a city without a heart. Its natural city centre, Henderson, was excluded from the city's boundaries.

Waitemata has no centre, it is a collection of villages and scattered houses.

Waitemata City's administration buildings were scattered throughout the area with headquarters in central Auckland.

Now the administration building is in downtown Henderson, where Waitemata pays rates to its rival city.

Waitemata's vast area of hills, mountains, dirt roads and low-density housing requires a lot of expensive servicing. But Waitemata has no industrial rate base with which to share the rate burden with the owners of the city's low to medium-priced housing.

So more than 90 per cent of the rate burden falls on these home owners, many of whom, newly arrived, are still struggling with mortgages.

The Audit Office reviewed Waitemata City in 1979 in an 88-page point-by-point critique of the city's problems and administrative shortcomings.

The report pointed out that while the newly created city took over 60 per cent of the population from the former county it only gained 41.2 per cent of the former rate base.

"The main effect was to leave the present city supporting a disproportionate area, population, and level of services, when compared with its ability to rate," the report said.

One-third of the city is owned by the Auckland Regional Authority and used for water catchment and parks. In return, the ARA pays only 2 per cent of Waitemata's rates.

The ARA pays no rates on the 2640 ha of Centennial Memorial Park in the Waitakere Ranges. Waitemata City issued a writ to recover from the ARA some $50,000 in unpaid rates and penalties. The High Court turned Waitemata down saying the ARA should be exempt from rates.

This ARA park alone represents about 17 per cent of Waitemata's land area. McHardy is still negotiating with the ARA.

McHardy said the road running through the park would cost $1 million to [illegible] and [illegible] Waitemata would not get [illegible] in rates, his city was subsidising Aucklanders' weekend pleasure.

Six per cent of Waitemata's land area is owned by Auckland City, which pays only peppercorn rates.

Waitemata homeowners pay average rates of $230 a year compared with $198 in Manukau City and $195 in Takapuna City.

The prime difference between Waitemata and Manukau City is that the latter has a big industrial sector to share the rate burden while Waitemata City missed the boat when outer Auckland went through its industrial boom.

Ratepayers' meetings in Waitemata are always heated affairs full of past recriminations, present allegations, innuendo, and snide asides about this or that councillors conflict of interest.

The citizens want lower rates, but still demand tar-sealing for their rural roads. They want lower rates but demand that tight restrictions be placed on any industry likely to be established in their area.

An industrial rate base would help pay the bills and take some of the burden off the residents.

But many of those living in Waitemata moved there to escape industry and city ordinances and show a strong distaste for industry's grubby side.

Take, for example, the timber company interested in setting up a mill in Waitemata. Among many restrictions proposed was one demanding that timber be stacked no more than two metres high.

The proposed timber mill is only one of many projects that died at the hands of Waitemata's vigilant environmental lobby.

McHardy, with a nine to five majority on the council, is out to attract an industrial base to the city offering rezoned industrial land, rate holidays for incoming industry, and a concerted reduction in bureaucratic pettylogging controls.

But McHardy has only three months to go before the next election.

He won the last mayoral contest with only 150 votes. He failed to gain an absolute majority.

McHardy's opponents — Bill Haresnape, a local architect and city councillor, and Tony Covic, a garage proprietor and city councillor — each pulled a large vote last election.

Haresnape has thrown his support behind Covic for mayor in what he describes as an "anti-McHardy ticket".

McHardy speaks proudly of his successes as mayor which, he claims go some way toward correcting the administrative failings pointed out in the Audit Office report.

His major disappointment, he said, is failing to amalgamate Waitemata City with its natural metropolitan heart, Henderson.

"We have to look at the west as a unit," he said.

"I hope we are moving toward burying the hatchet with Henderson. Henderson's population is under 7000. Ours is 86,000."

On this one point, McHardy and his opponent Covic agree. Both see a need for a bigger, economically coherent unit in the west. Covic has spoken of combining Waitemata, Henderson, and perhaps Glen Eden into one city.

Local government

Mayor fends off flak from his glasshouse office

by Warren Berryman

POLITICIANS choose to live in glass houses, and power attracts thrown stones.

This is particularly true in local body politics. Popular awe and respect tend to diminish with proximity to the subject. And the local body politicians, to a far greater degree than their parliamentary cousins, are constantly faced with decisions in which they are directly interested parties, be it rezoning of land, paving the road in front of their homes, or approving a pub or yacht harbour.

Waitemata City Mayor Ian McHardy is a classic case.

McHardy's friends say he is hard working, a good administrator, and maligned by enemies who seek only to destroy – not to offer constructive alternatives.

McHardy's enemies hint that the mayor's motives spring from vested interest and claim his methods are dictatorial.

McHardy, himself, claims he sacrificed a lucrative legal practice and forsook his business interests to serve his area as mayor.

"I built up a big legal practice," he said.

"What could I do? I got into politics because I got angry at people being ripped off.

"I chose to change the direction of my life. I cleared my lines accordingly. And that's all there is to it. I guess its hard for some people to accept that someone would do that.

"I achieved all I could in law and the commercial world. I really do enjoy the community."

McHardy's detractors, speaking at ratepayers' meetings, asking pointed questions in council, or via leaflets dropped in letterboxes, allege that McHardy is using his position to feather his own nest.

McHardy said: "This sort of flak discourages other professionals from standing for local bodies should they want to help their communities."

Does the constant barrage of accusations and criticism worry him?

McHardy said he went through a period of heart-burning. During the last local body election he even hired a private detective to find out who was maligning him.

Now, he said, he had taken the advise of a wise old politician who told him: "If they're stabbing you in the back you must be ahead."

McHardy said the era of vindictiveness began in 1974 with the infamous "garage meeting" when reliable councillors, just elected, plotted the demise of the new mayor and council – and finally succeeded in wrecking it.

A member of McHardy's opposition, mayoral aspirant and city councillor Tony Covic, in whose garage the meeting was held, disputed McHardy's assessment of the "garage meeting".

Covic claims McHardy is making an issue of a non-event, claiming the meeting was just an informal gathering of independent councillors discussing what they could do in opposition. They felt Waitemata's first mayor, Jack Colvin, had already predetermined his committee memberships.

Once elected mayor, McHardy excluded the independents from his committees, claiming they were so busy attacking him he could not give them jobs to do.

McHardy once sought the power to suspend rebel councillors for up to three months.

But he has since given up that idea. "I came to the conclusion I couldn't suspend councillors. They were elected to act responsibly. We'll have to leave it to the people to decide," he said.

McHardy dismisses the rebel councillors as a nuisance factor only. "They have not blocked one major decision," he said.

Independent councillors – particularly Councillor Bill Haresnape, a local architect – would claim they are acting responsibly.

Haresnape has spent years tracking down McHardy's business interests and land holdings and matching them up with council decisions.

Haresnape has his allies on the council and among ratepayers bodies.

Allegations against McHardy and his Waitemata Action Team of councillors, and calls for his resignation on grounds of conflicting interest, are a regular occurrence.

McHardy insists that on becoming mayor, he gave up all his directorships and business interests. His opponents are continually trying to prove that this is not true.

McHardy started to make enemies when, as a city councillor, he slapped an injunction on his own city council to prevent it from building a city administration building on council land at Lincoln Road.

In 1976 Waitemata City had its main administration centre in Greys Avenue in Auckland and proposed to build a new office at Lincoln Road for a cost of $660,000.

When the council started its earthworks, McHardy gained an injunction against the work proceeding on the grounds that the council had not obtained the required approval under the Town and Country Planning Act.

This went to the Supreme Court where McHardy's injunction was upheld. The Lincoln Road scheme was abandoned.

The Ombudsman was called in to investigate irregularities in the council's decision-making procedures and turned out a 67-page report which left most of the heated questions unanswered, but gave the council a mild slap on the wrist for failing to abide by its own bylaws.

Waitemata did move its administration centre, not to its own land in Lincoln Road, but to the John Henry Centre in downtown Henderson. And this move opened the most bitter round of allegations against McHardy.

The John Henry Centre was built by John Henry Centre Ltd, a company in which McHardy had a substantial shareholding till 1977, when Companies Office records indicate he transferred his shares to his business associate, Graham Allen.

In 1978, Aetna Life emerged on Companies Office files as sole owner of the building.

McHardy said he resigned his directorships in August 1977 before becoming mayor. Thus there was no conflict of interest.

Waitemata City has since decided the John Henry Centre is too small and will buy land for $300,000 or so to build its own building from between $3 and $4 million.

The cost of moving the administration centre from Greys Avenue to the John Henry Centre is a matter of hot dispute between rival council factions.

In 1978, McHardy claimed the move would save $200,000 a year.

But the council's own Greys Avenue building remained vacant for two years before it was leased to the Accident Compensation Commission. The critics claim that the council lost $70,000 a year rental, plus $25,000 a year paying rates on an empty building for two years, plus $100,000 or so required to fit the John Henry Centre before moving in.

McHardy next found himself at odds with his fellow councillors when the council initiated long and tedious legal moves against McHardy over non-payment of rates.

Then McHardy led a campaign to recover $450,000 in unpaid rates from Waitemata residents – a campaign his opponents saw as "cynical in the extreme".

Then there is the case of the Dawn Place subdivision. Councillor Haresnape, McHardy's avowed arch-enemy, claims that McHardy was asked twice by Covic if he had any connection with with the subdivision and that McHardy answered "no".

Haresnape also claims that McHardy did not vacate the chairman's chair when the subdivision was discussed in council.

Land Transfer Office records show that McHardy bought a property in Dawn Place in 1971, sold it to Riverside Industrial Estates Ltd in August 1977, then bought it back again last month.

McHardy is still listed in Company Office records as a minor shareholder in Riverside Industrial Estates Ltd (formerly Damar Development Ltd). McHardy was formerly a major shareholder in this land development company, according to Companies Office files.

McHardy's fellow directors and shareholders in Riverside Industrial Estates were Graham Allen and Athol Jack Macks, both of whom were shareholders in John Henry Centre Ltd.

Graham Allen's brother, Bevin Allen, is a Waitemata City councillor.

McHardy said he was obliged to buy this property back from Riverside Industrial Estates because the Dawn Place subdivision had failed.

There is also the case of the Redwood Park Country Club Inc. This club sent a newsletter to members last May saying that Mayor McHardy had told members at a wine and cheese evening that Waitemata City was prepared to stand guarantor for any mortgages the club was able to raise. (It is understood the mortgage in question was for about $200,000).

McHardy's opposition in council claims the mayor had no right to make such a promise as council had not even discussed the matter, much less approved it.

McHardy acted as solicitor for the Redwood Park Country Club when it was established. McHardy and his ex-wife are founder members.

McHardy said he told the club only "if they raised the loan, then the council would look at providing the guarantee".

With the council's move to bring industrial development to Waitemata, the allegations of conflicting interest enter a new phase.

The council is now playing for bigger stakes. And the dissidents are determined to discover who owns what, and who will benefit from the industrialisation drive.

Next week: the Waitemata City Council's efforts to sweeten the pot for businessmen willing to bring jobs and higher rate income to the area has opened yet another chapter of conflicts.

United States

US economists see recession and slow recovery

THE American economy is in a deep recession with little likelihood of a quick recovery regardless of who is elected President in November.

That was the message delivered to the National Economist Club last March by two leading private economists – Kathryn Eickhoff, of Townsend-Greenspan and Company, and Lawrence Chimerine, of Chase Econometrics Association Incorporated.

Chimerine said a slow recovery would occur whether Ronald Reagan or Jimmy Carter were in the White House next year.

Eickhoff said that while Reagan might emphasise "supply-side economics" – tax cuts to stimulate business investment and productivity – such policies couldn't help the economy before 1982 or 1983.

Eickhoff predicted the decline in real gross national product this year at 1.5 per cent, with only slight improvement in 1981.

She noted that the current recession is unlike any other post-war American economic downturn in that it was triggered primarily by a decline in consumer buying. In the past, liquidation of business inventories had been a major factor, but not in the present recession, she explained.

Chimerine predicted that this recession would be the second worst since World War II, with a second-quarter decline in economic growth of 7.5 per cent and a "peak-to-trough" decline of 3.5 per cent. This compares with a 5.7 per cent decline in 1974-75.

But Chimerine saw signs that the recession would be short-lived. He cited the relatively stable condition of inventories, a smaller decline in capital spending than occurred in the last recession, a sharp decline in interest rates that has improved prospects for the housing industry and the likely enactment of a tax cut by Congress, despite administration opposition.

Chimerine saw the economy reaching its lowest economic growth by the end of the year, before rising by 0.4 per cent and 3.3 per cent in 1981 and 1982, respectively.

The two economists disagreed on the probable course of inflation over the next few years.

Chimerine saw a significant easing in consumer prices in the remaining months of 1980. But he predicted that the underlying rate of inflation – industrial prices less price increases in the food, energy and housing sectors – would be around 10 per cent for the next several years. He cited as reasons for his estimate high unit labour costs and a tendency by Opec countries to keep world oil prices high in real terms by cutting production.

Eickhoff said she didn't think the United States "can maintain a 9-to-10-per cent inflation rate" over the next several years.

"The economy is not in a state of balance" at that rate, she said, and therefore the rate of inflation would either accelerate or decline.

The important determinant Eickhoff said, is whether the Federal Reserve will continue to restrict monetary growth throughout the recession, even at the cost of growing unemployment.

In a separate discussion, several financial analysts argued that American interest rates had come down too rapidly and too far.

"This decline is not backed up by economic conditions," said Richard Scott-Ram, of Chemical Bank, who predicted that short-term interest rates are likely to increase during the summer months.

Though a deepening recession has created a downward pressure on interest rates, Scott-Ram maintained that little actual relief from inflation and increasing Government demands for credit in light of the deepening recession will put greater upward pressure on interest rates.

Long-term rates will stay at their present level for a while, said Kenneth Wright, of the American Council of Life Insurance, as corporate demand for long-term bonds remains high in an attempt to restore liquidity.

But he predicted long-term rates will continue their downward trend by the end of the year.